AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Australian Foundation
Investment Company Limited
ABN 56 004 147 120
Level 21, 101 Collins St
Melbourne VIC 3000
T 03 9650 9911
F 03 9650 9100
invest@afi.com.au
afi.com.au

31 August 2023

The Manager
ASX Market Announcements
Australian Securities Exchange
Exchange Centre
Level 4
20 Bridge Street
Sydney NSW 2000

Electronic Lodgement

Australian Foundation Investment Company Limited
Statutory Annual Report, Annual Shareholder Review and Annual General Meeting Documentation

Dear Sir / Madam

Please find attached the 2023 Statutory Annual Report, Annual Shareholder Review and Annual General Meeting Documentation being sent to shareholders.

Yours faithfully

Matthew Rowe
Company Secretary

Authorised by the Company Secretary

Management commentary
(no financial statements)

Income,
Capital Growth,
Low Cost

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Annual Report 2023

Management commentary
(no financial statements)

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

Contents

Management commentary
(no financial statements)

Year in Summary

2023

Profit for the Year	$310.2m	$360.6m in 2022#
Fully Franked Dividend	14¢ Final / 25¢ Total	24 cents total in 2022
Total Portfolio Return	13.9% Including franking*	S&P/ASX 200 Accumulation Index including franking* 16.6%
Total Shareholder Return	-1.4%	Share price plus dividend, including franking*
Management Expense Ratio	0.14%	0.16% in 2022
Total Portfolio	$8.9b	Including cash at 30 June. $8.2 billion in 2022

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

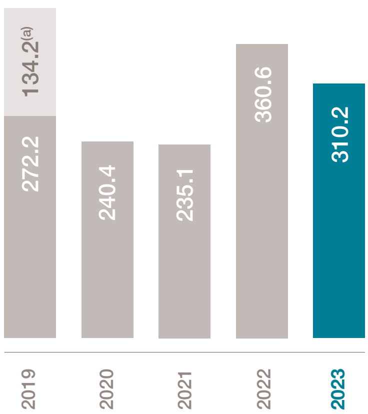
Includes a non-cash dividend of $74.9 million from the BHP Petroleum/Woodside merger in 2022.

Management commentary
(no financial statements)

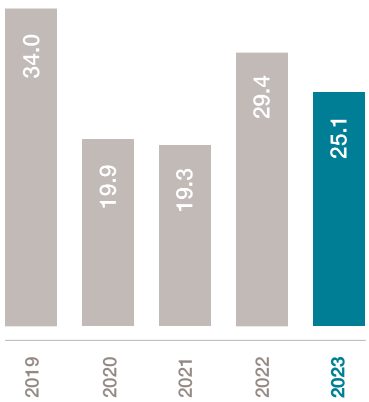
Management commentary
(no financial statements)

5 Year Summary

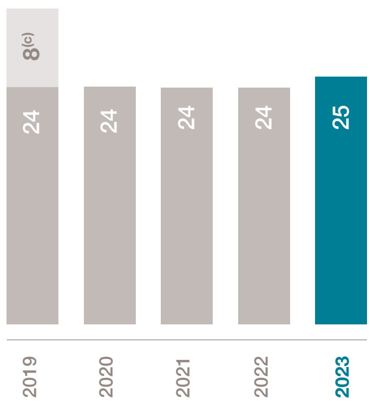
Net Profit After Tax ($ Million)



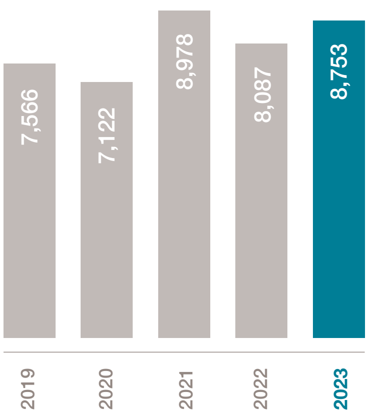
Net Profit Per Share (Cents)



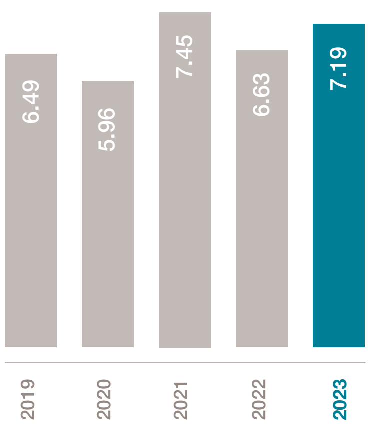
Dividends Per Share (Cents)[b]



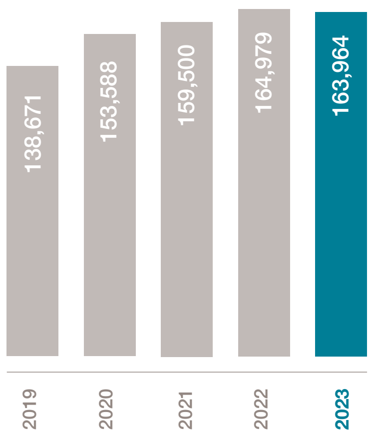
Investments at Market Value ($ Million)[d]



Net Asset Backing Per Share ($)[e]



Number of Shareholders (30 June)



Notes

(a) Participation in the Rio Tinto and BHP off-market share buy-backs, special dividends and the receipt of a dividend because of the Coles demerger from Wesfarmers.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was 2023: 10.0 cents; 2022: 14.29 cents, 2021: 4.29 cents, 2020: 7.14 cents, 2019: 7.14 cents.

(c) 8 cents fully franked special dividend paid with the interim dividend.

(d) Excludes cash.

(e) 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.

Management commentary (no financial statements)

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

Quality First — **Growth** Including dividends — **Value** → A portfolio that is managed to achieve long term capital and dividend growth

Management commentary
(no financial statements)

Approach to Investing

Investment Philosophy

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

Quality in this context is an outcome of our assessment of the following factors:

1. We prefer companies that have a leadership position or are developing one within the industry in which they operate. This will often mean we are investing in a unique set of assets with competitive advantages that produces attractive returns on invested capital.
2. As a long term, tax aware investor we seek to be in companies that have a long term sustainable business model, with low risk of disruption. This helps to ensure portfolio turnover remains low. The analysis may consider technological disruption, environmental issues, including the impact of climate change, and social risks as all of these factors can have a material impact on the assessment of a company's long term sustainability.
3. We consider how a company's business can be potentially impacted by influences outside the control of management such as change in government regulation and/or policy.
4. We are attracted to companies with outstanding management teams and boards with strong governance processes, whose interests are closely aligned with shareholders, and act in the best interest of all their stakeholders, including their employees, customers, suppliers and wider communities. We consider matters including safety, diversity, social impacts, environmental impact, and modern slavery where material or appropriate in the context of that company. We regularly review and meet with companies to ensure ongoing alignment with our investment frameworks. Our process may include an assessment of the board in terms of their past performance, history of capital allocation, level of accountability, mix of skills, relevant experience and succession planning. We also consider a company's degree of transparency and disclosure.

   Voting on resolutions is one of the key functions that a shareholder has in ensuring better long term returns and management of investment risk. We take input from proxy advisers but conduct our own evaluation of the merits of any resolution. We vote on all company resolutions as part of our regular engagement with the companies in the portfolio and our voting record is on the company's website. We actively engage with companies when we are concerned about resolutions that are not aligned with shareholders' interests. We seek to stay engaged with the companies and satisfy ourselves that any issues are taken seriously and worked through constructively. Ideally we seek to remain invested to influence a satisfactory outcome for stakeholders.
5. We prefer companies with more stable income flows. We are wary of companies that have large, inconsistent profit streams.
6. We like our companies to be financially strong and the assessment of the balance sheet and the degree to which the company is self-funding is critical in our analysis. Cash generation is also an important consideration.

Analysis of the above factors helps to inform us of the structure of the industry and a company's sustainable competitive position as well as the quality of the people running the business, strength of the balance sheet and consistency of earnings. Within this analysis some key financial metrics are considered. These include return on capital employed, return on equity, the level of gearing in the balance sheet, margins and free cash flow generation.

Alongside the assessment of quality is an analysis of the ability of companies to grow earnings over time, which ultimately should drive dividend growth.

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.

Reporting of social and environmental issues will be influenced by the development of standards by the International Sustainability Standards Board (ISSB). Their potential introduction in Australia should enable investors over time to better make informed decisions on these issues based on company disclosures arising from these standards. Assessment of commitments and plans by companies to reach net zero by 2050 may also be considered having regard to several factors. These include the industry in which they operate, progress against their plans, their broader contribution to social good in addressing the challenge of reducing global carbon emissions, and the impact on their value if they fail to achieve their stated goals. In applying external data for benchmarking*, the current carbon intensity of AFIC's portfolio is considerably less than the S&P/ASX 200 Index.

In building the investment portfolio with the principles outlined, we believe we can offer investors a well-diversified portfolio of quality companies structured to deliver total returns ahead of the Australian equity market over the long term with less volatility and with more consistent dividends.

From time to time, some borrowings may be used where potential investment returns justify the use of debt.

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 additional 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 2023 this was 0.14 per cent, or 14 cents for each $100 invested.

* Data provided by ISS ESG.
Portfolio at 30 June 2023.

Review of Operations and Activities

Profit and Dividend

The full year profit was $310.2 million, down from $360.6 million in the previous corresponding period. Last year's profit included a dividend of $74.9 million (which was non-cash but carries franking credits with it) resulting from the BHP Petroleum/Woodside merger. Excluding this figure, the full year profit was up 8.6 per cent from $285.7 million in the corresponding period last year. The increase in the underlying profit from last year was driven by higher dividends received from investee companies and adjustments made to the portfolio throughout the year.

Earnings per share for the financial year were 25.1 cents per share. The final dividend was maintained at 14 cents per share fully franked, bringing total fully franked dividends applicable for the year to 25 cents per share following the 1 cent per share increase in the interim dividend declared in January 2023.

Seven cents of the final dividend were 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 equal to 10.0 cents per share. The enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

The Australian equity market enjoyed a strong year despite significant the increase in interest rates over the period in response to inflationary pressures and a somewhat more subdued outlook for economic growth. In some quarters there are concerns about a looming recession, but this has yet to eventuate, and the employment market remains strong. However, this environment produced quite a marked divergence in performance across sectors.

Including the benefit of franking credits, the S&P/ASX 200 Accumulation Index rose 16.6 per cent over the financial year. Best performing sectors were Information Technology, up 38.1 per cent and Materials, up 22.6 per cent.

The Information Technology sector has shown similar strength to the NASDAQ Composite Index over recent months amid growing interest in the future applications of artificial intelligence. The strength in the Materials sector was primarily driven by the re-opening of the Chinese economy following a period of lockdown during the COVID-19 pandemic. Sectors that underperformed the broader market included Healthcare which increased 5.7 per cent, Consumer Staples up 6.2 per cent and Real Estate up 6.8 per cent.

The portfolio returned 13.9 per cent when franking is included. Together with the strong rally in Materials the relative underperformance in the strong market came from a number of high-quality companies in the portfolio which trailed the return of the overall market. These included Transurban Group, Mainfreight and ASX. However, despite these short term movements we still consider the prospects for these companies remain strong.

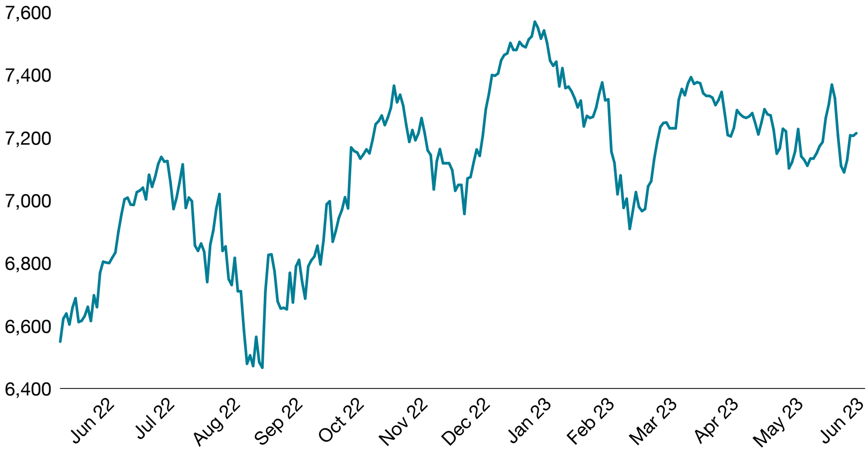
Management commentary
(no financial statements)

Following a strong financial year ending June 2022, our overweight position in Amcor also had a meaningful negative impact on relative performance. Customer demand for its products declined from the panic buying during the COVID-19 related supply chain challenges leading to a subsequent period of customer destocking.

Materials exposure in the portfolio is primarily through our holdings in BHP and Rio Tinto. While our long term underweight position in Materials (particularly in lithium and gold) detracted from relative performance, we remain comfortable with the positioning of the portfolio regarding this more cyclical part of the market. We maintain our research efforts in the lithium sector, however high spot commodity prices in these markets make us cautious about investing at present for the medium to long term.

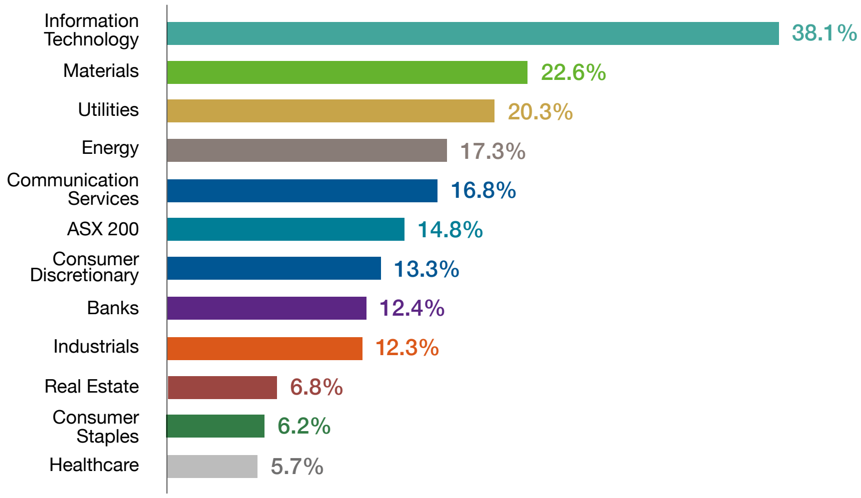
Companies in the portfolio that performed relatively well against the Index through the 12-month period included strong returns from Reece, AUB Group, James Hardie Industries, Carsales.com and Xero.

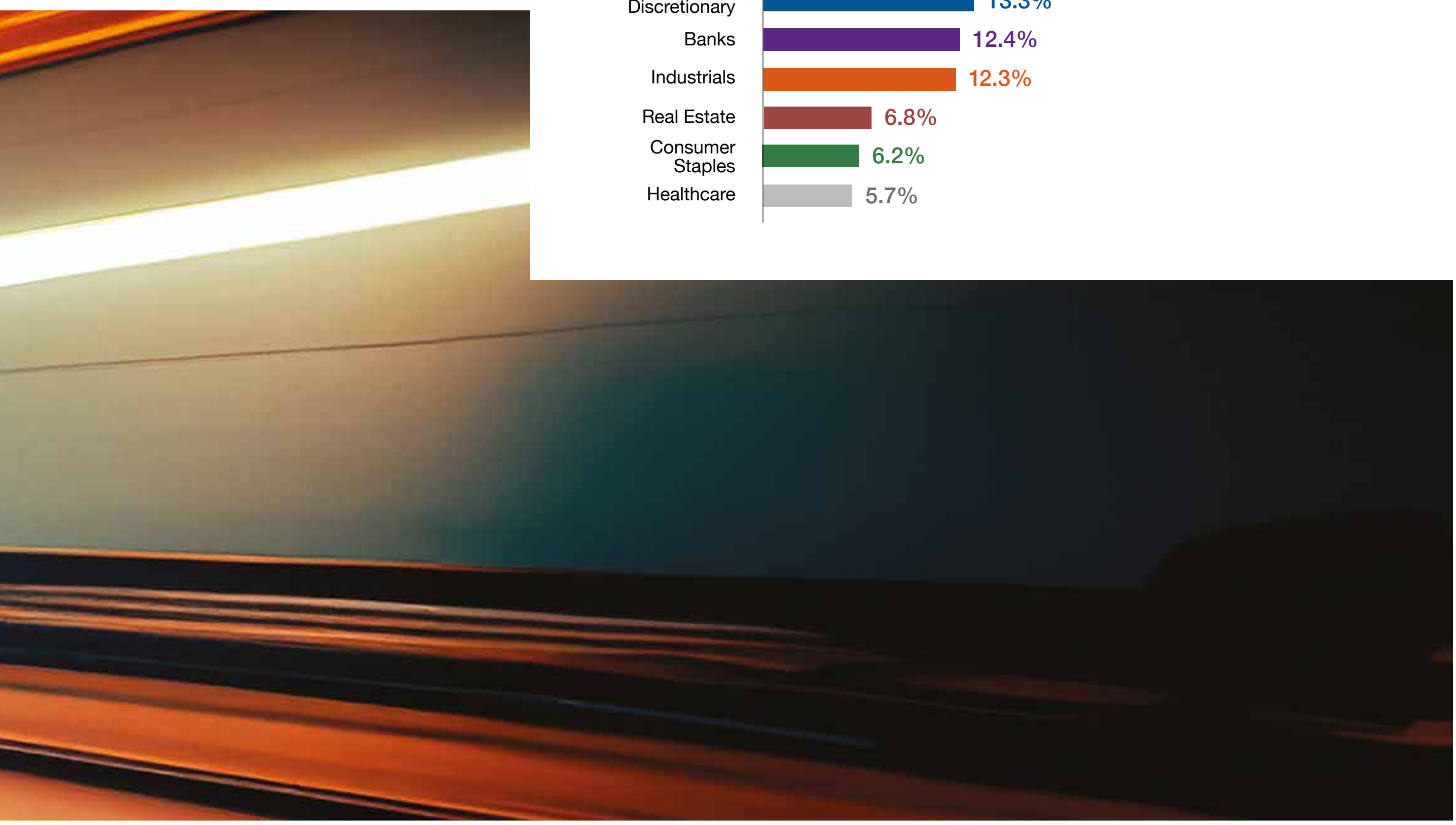
Figure 1: Performance of the S&P/ASX 200 Price Index – 12 Months to 30 June 2023



Source: FactSet

Figure 2: Sector Performance for the 12 Months to 30 June 2023 (Returns Do Not Include Franking)





Management commentary (no financial statements)

Management commentary
(no financial statements)

Positioning the Portfolio

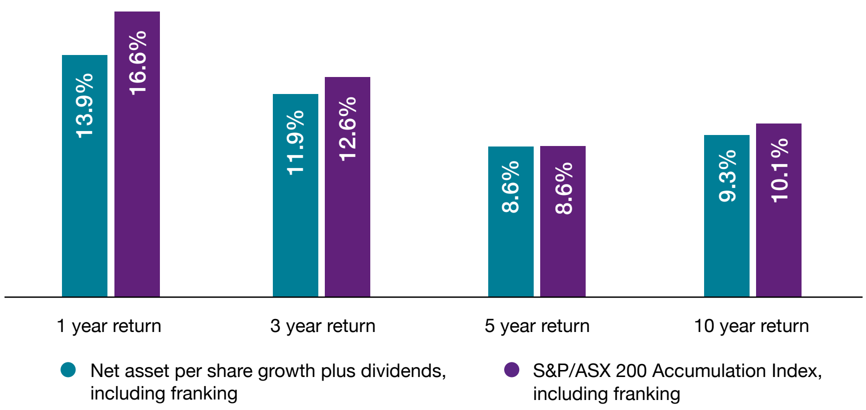
While we endeavour to have low turnover to reduce the impact of tax paid on returns, recycling capital from companies trading at extreme valuations to capture the appropriate buying opportunity remains fundamental to our approach. In this context, the portfolio benefited from trimming several holdings at appropriate times through the year. This included holdings in NEXTDC, Brambles, IRESS, Carsales.com (following participation in recent equity placements which took the holding to above our desired portfolio position), Commonwealth Bank of Australia, Westpac Banking Corporation, ANZ Group Holdings, Mainfreight, Transurban, Ramsay Healthcare and Amcor. We exited the position in Temple & Webster Group which allowed us to redeploy this capital in other opportunities.

We also exited our holdings in Orica, InvoCare, Reliance Worldwide and Ryman Healthcare. We are observing structural industry challenges for many of these companies or an environment where competitive intensity has materially increased. We consider the growth prospects for the majority of these companies to be increasingly challenged as a result.

As a counterbalance to this activity most purchases during the year were focused on increasing weightings to existing holdings. This included BHP, National Australia Bank, Domino's Pizza Enterprises, IDP Education, Santos, CSL, Mirvac, Computershare and Goodman Group.

In managing the portfolio, we endeavour to hold a diversified portfolio of quality companies with an appropriate mix of income and growth attributes to achieve our long term investment objectives. As value across the market during the financial year became more difficult to observe, we materially increased activity to enhance income through the writing of call options over selected holdings. Pleasingly, this activity provided a meaningful contribution to an improvement in income for the year.

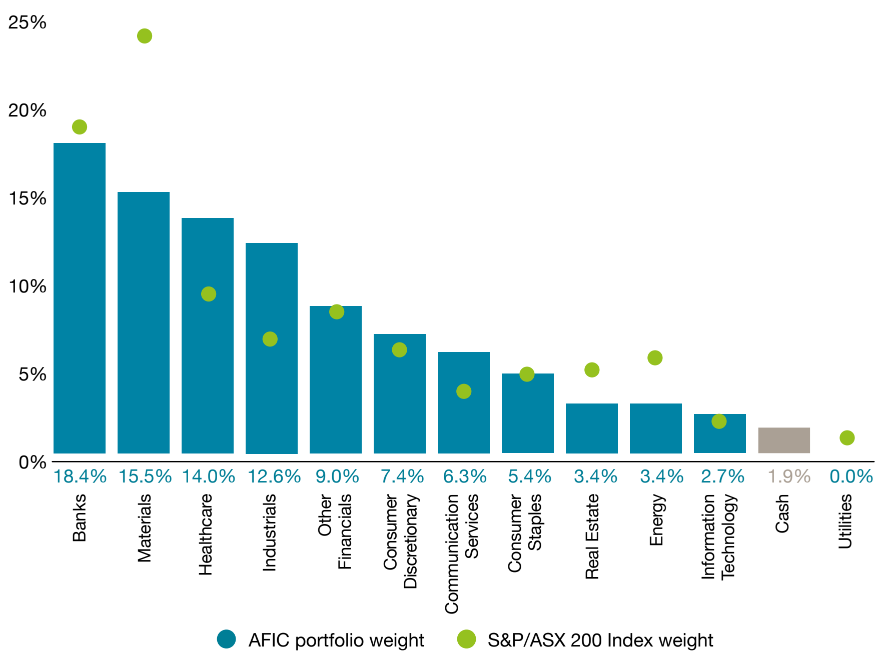
Figure 3: Portfolio Performance – Per Annum Returns to 30 June 2023



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

Note AFIC's performance returns are after costs. AFIC on occasions incurs realised capital gains tax on the sale of shares. Not all the of the franking generated from these realised capital gains is paid out as dividends and is therefore not included in these performance figures.

Figure 4: AFIC Investment by Sector versus the S&P/ASX 200 Index as at 30 June 2023 – Excludes International Holdings



One new stock was added through the year. We initiated a position in Breville Group, which is a kitchen appliance company operating premium brands in the cooking, beverage and food preparation categories. The business was founded in 1932, maintains a heavy focus on product innovation and has very strong global distribution which should provide for further profit growth. Breville Group has a long history of excellent financial discipline delivering strong returns for shareholders.

Management commentary (no financial statements)

International Portfolio

We have continued to trial the management of an international portfolio over the period. This portfolio consists of what we have assessed to be high-quality companies with a strong competitive advantage, good growth potential and across a broad range of industries. This portfolio was first initiated in May 2021 as a potential precursor to establishing a separate low-cost international Listed Investment Company in the future.

At 30 June 2023 approximately $115.4 million was invested in 41 companies in this portfolio (which represents approximately 1.3 per cent of the total AFIC portfolio).

The performance of the portfolio since its inception is ahead of its benchmark index which is very pleasing given the volatile market conditions that have been in evidence over this period.

Share Price Return

The share price was trading at a discount of 2 per cent to the net asset backing (before tax on unrealised gains) at the end of June 2023, whereas at 30 June 2022 the premium was very high at 13 per cent (Figure 5). As a result, the share price return, including reinvestment of dividends and franking credits, over the 12 months to 30 June 2023 did not align with the performance of the portfolio.

There appears to have been less demand for equity funds across the industry as interest rates have risen over the year and AFIC was not immune from this trend.

The longer-term share price returns are outlined in Figure 6. The figures for the Index and share price assume a shareholder can take full advantage of the franking credits attached to the dividends paid.

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

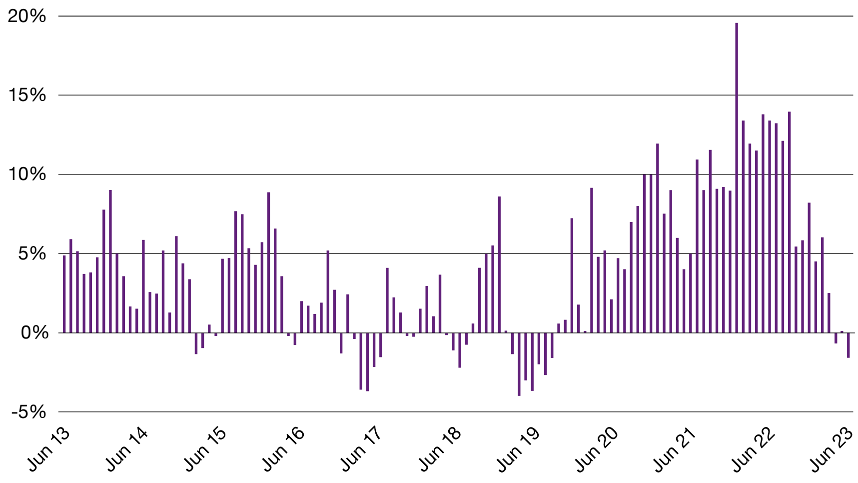
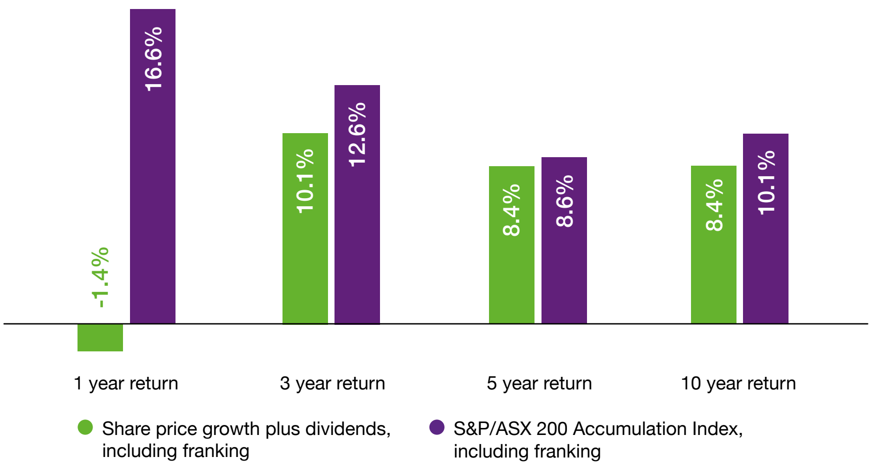


Figure 6: Share Price Return – Per Annum Returns to 30 June 2023



Outlook

Medium-term conditions remain unpredictable with a broad range of potential outcomes. Economic growth and the employment rate remain sound despite inflationary pressures, the recent rapid rises in interest rates and growth in China slowing.

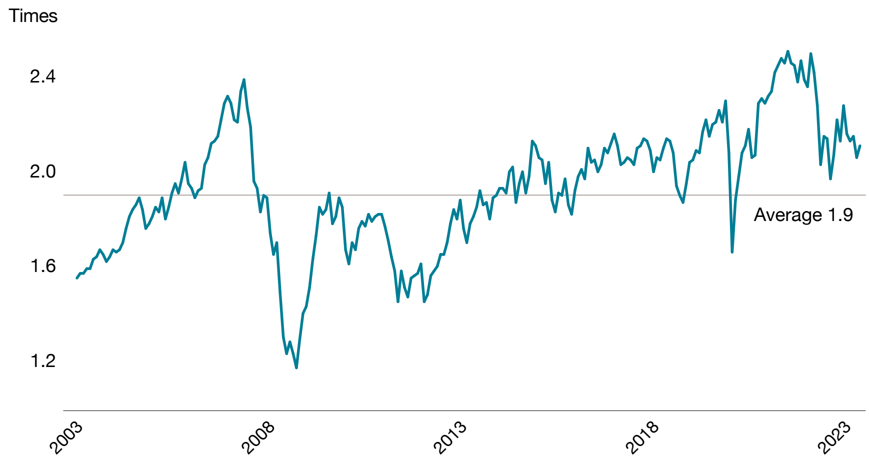
In this context equity markets have surprisingly been strong despite broad-based expectations of a significant slowing in many global economies including Australia.

While aware of the prevailing environment our research effort remains focused on the fundamentals of the companies in our investment universe. We consider the portfolio remains invested in quality companies forecast to deliver an appropriate mix of income and growth returns positioning us well to deliver our long term investment objectives.

Valuation of the market as measured by the price to sales ratio (Figure 7) and price to book ratio (Figure 8) are relatively high, particularly against the expected background of more difficult operating conditions for companies as higher interest rates start to negatively impact economic activity. In this context we can afford to take a patient approach and use any short term volatility to our advantage as long term investors.

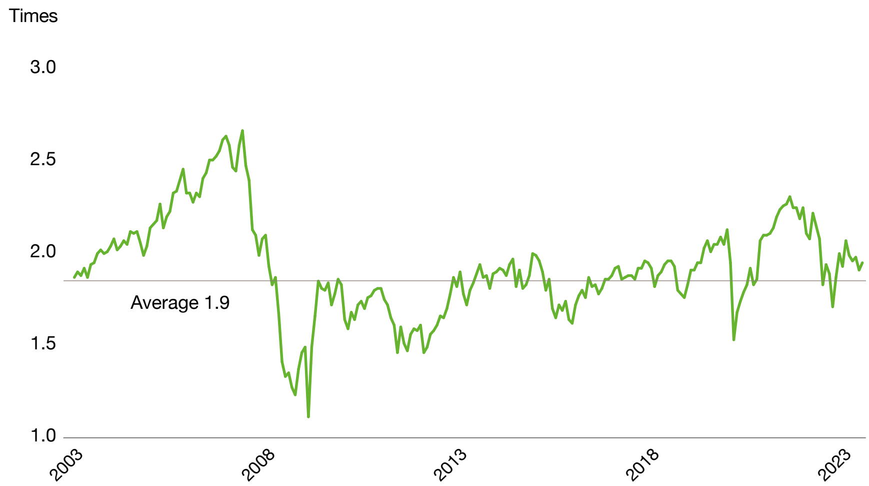
Management commentary
(no financial statements)

Figure 7: Valuation of the Market – Price to Sales of the S&P/ASX 200 Index



Source: FactSet

Figure 8: Valuation of the Market – Price to Book of the S&P/ASX 200 Index



Source: FactSet

Management commentary (no financial statements)

Top 25 Investments

As at 30 June 2023

Includes investments held in both the investment and trading portfolios.

Value at Closing Prices at 30 June 2023

		Total Value $ Million	% of the Portfolio
1	BHP	793.3	9.1
2	Commonwealth Bank of Australia	783.0	8.9
3	CSL	674.3	7.7
4	Macquarie Group*	397.7	4.5
5	Transurban Group*	386.3	4.4
6	Wesfarmers	363.7	4.2
7	National Australia Bank*	341.3	3.9
8	Westpac Banking Corporation	322.8	3.7
9	Woolworths Group*	292.2	3.3
10	James Hardie Industries*	215.1	2.5
11	Rio Tinto	213.6	2.4
12	Telstra Group	209.3	2.4
13	Woodside Energy Group*	200.1	2.3
14	Goodman Group	193.8	2.2
15	ANZ Group Holdings	192.0	2.2
16	Mainfreight	186.8	2.1
17	Coles Group*	179.0	2.0
18	Carsales.com*	161.2	1.8
19	Amcor	154.8	1.8
20	ResMed	144.0	1.6
21	Reece	134.9	1.5
22	Sonic Healthcare	118.1	1.3
23	Xero	105.9	1.2
24	Santos*	104.5	1.2
25	ARB Corporation	104.1	1.2
Total		**6,971.8**	
As percentage of total portfolio value (excludes cash)			79.6%

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

Management commentary
(no financial statements)

Company Position

Capital Changes

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

- Under the Company's Dividend Substitution Share Plan, 835,703 new shares were issued at nil cost in August 2022 and 697,074 new shares were issued at nil cost in February 2023.
- Under the Company's Dividend Reinvestment Plan, 4,882,849 new shares were issued at a price of $7.56 in August 2022 and 4,026,683 new shares were issued at a price of $7.29 in February 2023.

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 $66.1 million to $3.1 billion. At the close of the year the Company had 1,240 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 2023 were as follows:

	$'000
Final dividend for the year ended 30 June 2022 of 14 cents fully franked at 30 per cent paid 30 August 2022	165,866
Interim dividend for the year ended 30 June 2023 of 11 cents per share fully franked at 30 per cent, paid 24 February 2023	130,836
	296,702

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 and LIC gains that would otherwise be attached to the dividend but deferring any tax due on the receipt of such shares (for Australian taxpayers) 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 and National Australia Bank for loan facilities totalling $130 million (see Note D2). As at 30 June 2023, the facilities were drawn down by $10 million. 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.

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 LICs 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 an 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 2023, it carries with it a 10 cents per share LIC capital gain attributable part (2022: 14.29 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.

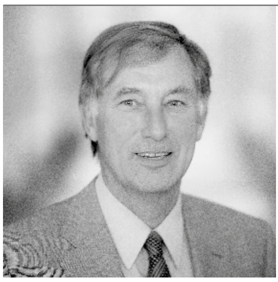
Corporate Governance Statement

The Company's Corporate Governance Statement for the financial year ended 30 June 2023 will be found on the Company's website at 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.

Management commentary (no financial statements)

Board Members



John Paterson

Chairman and Independent Non-Executive Director

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

Chairman of the Investment Committee. Member of the Remuneration, Nomination and Audit Committees. Non-Executive 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 was formerly the 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)

Member of the Investment Committee. Managing Director of AICS.

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 investment markets and the Company's approaches, policies and processes. He is also Managing Director of Djerriwarrh Investments Limited, Mirrabooka Investments Limited and AMCIL Limited.

Rebecca Dee-Bradbury

Independent Non-Executive Director

BBus, GAICD

Member of the Investment and Nomination Committees.

Ms Dee-Bradbury was appointed to the Board in May 2019. 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 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.

Craig Drummond

Independent Non-Executive Director

BCom (Melb), SF FIN, FCA

Member of the Investment and Nomination Committees. Non-Executive Chairman of the Company's subsidiary, AICS

Mr Drummond was appointed to the Board in July 2021. He is the President of the Geelong Football Club Limited, Chairman of Transurban Ltd and a Governor of The Ian Potter Foundation.

Mr Drummond was a member of the Financial Regulator Assessment Authority from 10 September 2021 to 30 June 2023. He served as Chief Executive Officer of Medibank from July 2016 to May 2021. Prior to joining Medibank, he was Group Executive Finance and Strategy of National Australia Bank (NAB), and Chief Executive Officer and Country Head of Bank of America Merrill Lynch (Australia). Earlier in his career, Mr Drummond held roles at Goldman Sachs JBWere including Chief Operating Officer, Chief Executive Officer and Executive Chairman.

Management commentary
(no financial statements)

Julie Fahey

Independent Non-Executive Director

BAS

Chairman of the Audit Committee.

Ms Fahey was appointed to the Board in April 2021. She has over 30 years of experience in technology, including in major organisations such as Western Mining, Exxon, Roy Morgan, General Motors and SAP, covering consulting, software vendor and Chief Information Officer roles. In addition to her industry experience, she spent 10 years at KPMG as a partner with the firm, during which time she held roles as National Lead Partner Telecommunications, Media and Technology, and National Managing Partner – Markets. She was also a member of the KPMG National Executive Committee.

Ms Fahey is a Non-Executive Director of Seek Limited, IRESS Limited and Datacom and a member of the Australian Red Cross LifeBlood board. She was formerly a Non-Executive Director of Vocus, Partnerslife and Cenitex and formerly a member of the Latrobe University Council.

Graeme R Liebelt

Independent Non-Executive Director

BEc (Hons), FAICD FTSE

Chairman of the Remuneration Committee.

Mr Liebelt was appointed to the Board in June 2012. He is Chairman of Amcor Limited. 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 a Director of Carey Baptist Grammar School, Chairman and Director of DuluxGroup Limited, Chairman and Director of the Global Foundation, Deputy Chairman of Melbourne Business School, Managing Director and CEO of Orica Limited and Director of Australia and New Zealand Banking Group Limited.

David A Peever

Independent Non-Executive Director

BEc, MSc (Mineral Economics)

Member of the Audit and Investment Committees.

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. 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 was a Non-Executive Chairman of Naval Group Australia, a former member of the Foreign Investment Review Board, a former Chair of Cricket Australia and a former Director of the Stars Foundation, a not for profit body which promotes education of Indigenous girls and 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

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

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

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 2023 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	12	12	18	18	4	4	2	2	5	5
M Freeman	12	12	18	17	-	3#	-	2#	-	-
RP Dee Bradbury	12	12	18	18	-	4#	-	-	5	5
CM Drummond	12	12	17+	16	-	4#	-	2#	4**	4
JA Fahey	12	12	-	13#	4	3	-	1#	-	-
GR Liebelt	12	12	-	17#	-	3#	2	2	-	-
DA Peever	12	12	18	17	4	4	-	-	-	1#
CM Walter	12	12	18	18	4	4	2	2	5	5
PJ Williams^	3	3	5	5	1	1	-	1#	2	2

\# Attended meetings as non-members

\+ C Drummond was appointed as a member of the Investment Committee on 25 July 2022.

** C Drummond was granted a leave of absence for one Nomination Committee meeting.

^ P Williams retired from the Board on 4 October 2022.

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.

Management commentary
(no financial statements)

Senior Executives

Geoffrey N Driver

General Manager Business Development and Investor Relations

BEc, 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/ Company Secretary

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

Mr Porter joined the Company in January 2005. He is a Chartered Accountant and has had over 25 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 a Director of the Auditing and Assurance Standards Board (AUASB) and a Director of the Anglican Foundation. Mr Porter is a former Chair of The Group of 100 (G100), the peak body for CFOs.

Matthew J Rowe

Company Secretary

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

Mr Rowe joined the Company in July 2016. He is a Chartered Secretary with over 18 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 he was the Company Secretarial Manager for a funds management company based in the United Kingdom.

Management commentary
(no financial statements)

Remuneration Report

Contents

The Directors present AFIC's 2023 Remuneration Report which outlines key aspects of our remuneration policy and remuneration awarded this year.

Changes to the Remuneration Structure for the Year Ended 30 June 2023

As outlined in the 2022 Annual Report, the Board has instituted changes to the remuneration plan for Executives with effect from 1 July 2022.

This has involves the merging of the Long Term Incentive Plan with the Annual Incentive Plan to create a new Incentive Plan.

58 per cent of the available incentive under the Incentive Plan is long term in nature, as it measures investment performance and the growth in dividends and earnings per share over more than one year.

The remaining 42 per cent is 20 per cent based on personal metrics for each Executive and 22 per cent based on investment performance and other financial metrics over a single year (although the Management Expense Ratio (MER) measure is reviewed in the context of longer term trends).

Outcomes may differ from these percentages as, for instance, longer term measures may vest whilst shorter term measures may not, and vice versa.

Awards under the Incentive Plan will be paid in cash. Executives are required to use 25 per cent of the pre-tax amount of any incentive that vests to purchase shares in AFIC and/or the other LICs (see below). Executives are expected over time to build and to maintain an appropriate holding not only in AFIC shares but also in shares in the other LICs to which the Executives provide service.

The performance metrics for the new Plan are the same as for the old Annual Incentive Plan, with the addition of a Reward/Risk component which is measured over five years and compared to the Mercer Reward/Risk Survey of Australian fund managers.

The old Long Term Incentive Plan was entirely based on AFIC's performance, and AFIC bore the entire expense. The merging of the two plans means that all LICs bear an appropriate proportion of the cost.

Note on AFIC's Proportion of the Costs Detailed in the Remuneration Report

The Remuneration Report is required to show the salary and incentives that the Group Executives receive. It does not accurately reflect the actual cost to AFIC shareholders of this remuneration.

This is because the other companies that the Executives provide services to (Djerriwarrh Investments Ltd, Mirrabooka Investments Ltd and AMCIL Ltd, collectively 'the LICs') pay for a proportion of these costs.

The total remuneration shown in Table 4 is $4.25 million.

Of this, 38 per cent (or $1.61 million) is or will be paid for by the other LICs, through the service agreements with AFIC's subsidiary, Australian Investment Company Services Ltd (AICS). Note that this includes the vesting during the 2022/23 year of the last tranche of the old Long Term Incentive plan, which was entirely borne by AFIC.

Therefore, 62 per cent, or $2.64 million, will be borne by AFIC and its shareholders.

The report is structured as follows:

1 Remuneration Policy, Link to Performance and Outcomes
2 Structure of Remuneration
3 Executive Remuneration Expense
4 Contract Terms
5 Non-Executive Director Remuneration

Appendix

A. Remuneration Governance

B. Annual Incentives: Details of Outcomes and Conditions

C. Directors and Executives: Equity Holdings and Other Transactions

D. Potential Clawback of Incentives

E. Detailed Performance Measures by Investment Company

1. Remuneration Policy, Link to Performance and Outcomes

1.1 What is Our Remuneration Policy?

AFIC is an investor in securities which are listed mainly in Australia and New Zealand. Our 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. 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.

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

- fixed annual remuneration (FAR); and
- performance-related pay (Incentive Plan).

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. The costs of the FAR (and the personal element of the Annual Incentive) are allocated to the LICs based on an internal estimate of work performed which is subject to Board approval.

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 a smaller proportion of the Incentive Plan being dependent on a single year's performance; and
- executives agree to invest 25 per cent of the pre-tax annual cash incentive in AFIC shares and/or shares of the other investment companies (AMCIL Limited, Djerriwarrh Investments Limited and Mirrabooka Investments Limited) and to hold these shares for a minimum of four years.

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 **50%**
- Annual incentive **50%**

Other Executives' Target Remuneration Mix

- Fixed annual remuneration **67%**
- Annual incentive **33%**

1.3 How is the Remuneration Paid in 2023 Linked to Performance?

1.3.1 Fixed Remuneration

Most Executives received 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 extremely competent and highly motivated.

1.3.2 Performance-related Pay

This section shows how incentive measurements are split between AFIC and the other investment companies.

	%	Result
AFIC Investment performance	32	Table 2
AFIC Other metrics	8	Table 1
Percentage of incentive determined by AFIC performance	**40**	
Other LIC Investment Performance	28	Table 12
Other LIC Other metrics	12	Table 12
Percentage of incentive determined by Other LICs performance	**40**	
Total percentage of incentive determined by AFIC/Other LIC performance	**80**	
Personal metrics	20	N/A
	100	

See Table 5 for more details on the measures used in determining the Annual Incentives.

- The outcome for the previous long term incentive (LTI) award that was tested for vesting during the year are shown in Table 3.

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

The Resources sector, an industry sector in which AFIC has traditionally been underweight, strongly outperformed the broader index in the year ended 30 June 2023, up 23.0 per cent against the broader index up 14.8 per cent. This followed strong out-performance in the previous year as well. Industrials, by contrast, where AFIC has traditionally invested for consistency of returns, was up only 11.8 per cent for the year ended 30 June 2023.

Management commentary
(no financial statements)

This has resulted in AFIC underperforming its shorter term investment measures whilst the medium and longer term ones are either in line or slightly below. However, AFIC strongly outperformed on the Risk/Reward measure, delivering the Board's preferred outcome of less-volatile returns.

Furthermore, many returns quoted by managed funds exclude either tax or expenses, or both. The use of 'grossed-up returns' (see Table 2 and Table 10) 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 extent to which franking credits are retained by the Company, particularly from capital gains, will be a drag on the stated performance.

For the other LICs, AMCIL also underperformed its shorter term investment measures (one and three years) but was either marginally below (Grossed up NTA) or above (Investment Return) for the longer term – the difference being caused by the tax that AMCIL has had to pay on realised gains and a number of share issues at a discount to NTA.

Mirrabooka strongly outperformed on all of its investment targets, and stretch levels were achieved, leading to a vesting higher than target for the elements of the incentive that were based on these measures.

Largely due to the reallocation of costs, both AMCIL and Mirrabooka's MER returned to historical norms.

Djerriwarrh's investment returns by contrast to AFIC and AMCIL were stronger in the short term (one and three years, following a realignment of strategy three years ago) and outperformed against its modified target (the Index returns are modified in periods of strong growth to reflect the option strategy that Djerriwarrh uses to maintain its dividend yield at a level higher than that of the S&P/ASX 200 as a whole).

The MER for AFIC has fallen in the year despite a reduction in the size of the average portfolio value over the year. This is largely as a consequence of the non-vesting of incentives and particularly the write-back of the accrued costs of the old Long Term Incentive Plan. This latter is a 'one-off' benefit, and next year's (and future years') MER will not benefit from this. As a shareholder in AICS, Djerriwarrh also benefited from this effect and its MER was down on the previous year.

Earnings growth (using a normalised earnings per share which strips out (as in previous years) merger and de-merger dividends et al.) has been strong over one and three years but modest over five years following strong underlying Company earnings in 2018. The Board also increased the dividend this year after maintaining a constant dividend through the COVID-19 pandemic and related crises, when many companies and fund managers cut their distributions.

Detailed information about the performance of each investment company is provided in Section E of the Appendix (Table 12).

Table 1: Non-investment Return Performance Measures

Performance measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Growth in net operating result	Est. CPI over five years – 3.3%	1.3%	Unfavourable
Management expense ratio	n/a	0.14%	Favourable

Outcome: Achieved Partially achieved Not achieved

Table 2: Investment Return Performance Measures

Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Investment return – 1 year	14.8%	12.8%	Unfavourable
Investment return – 3 years	11.1%	11.0%	In line
Investment return – 5 years	7.2%	7.5%	Favourable
Investment return – 10 years	8.6%	8.1%	Unfavourable
Grossed-up return – 1 year	16.6%	13.9%	Unfavourable
Grossed-up return – 3 years	12.6%	11.9%	Unfavourable
Grossed-up return – 5 years	8.6%	8.6%	In line
Grossed-up return – 10 years	10.1%	9.3%	Unfavourable
Risk/Reward – 5 years	0.40	0.47	Favourable

Outcome: Achieved Partially achieved Not achieved

Management commentary
(no financial statements)

Table 3: 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 2018	30 June 2022	Total gross shareholder return	8.6%	12.5%	50%	0%
		Total portfolio return (TPR)	5.7%	5.5%	47.5%	2.5%

* Of the rights awarded on 1 July 2018, 2.5 per cent were forfeited as the relevant targets were not achieved (although AFIC exceeded the target for TPR it was below the 75th percentile which would have led to full vesting) and 97.5 per cent vested.

1.3.3 Remuneration Outcomes

Table 4 discloses the actual remuneration outcomes received by the Company's executives during the year and the LTI that may have vested in future years. These amounts are different to the statutory remuneration expense disclosed in Table 6. The Directors consider the information about remuneration outcomes in Table 4 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.

Table 4: Actual Executive Remuneration Outcomes

	Total FAR $	Incentive 'Long Term' Portion $	Incentive 'Short Term' Portion (Incl. Personal) $	Prior Years' LTI Received* $	Total Remune-ration^ $	Total Borne by AFIC $	Total Borne by Other LICs $	Incentive Forfeited $	LTI Forfeited $	Possible Future LTI (to Vest Over Next 4 Years)# $
Mark Freeman – Managing Director										
2023	**913,400**	**312,054**	**286,223**	**239,728**	**1,751,405**	**1,067,214**	**684,191**	**(315,123)**	**(9,798)**	**-**
2022	884,340	221,439	246,907	117,034	1,469,720	793,649	676,071	(239,126)	(18,193)	904,609
Andrew Porter – Chief Financial Officer										
2023	**731,000**	**124,869**	**111,975**	**140,581**	**1,108,425**	**696,726**	**411,699**	**(128,656)**	**(6,164)**	**-**
2022	707,472	77,504	84,436	134,956	1,004,368	542,359	462,009	(85,675)	(20,978)	533,821
Geoff Driver – General Manager – Business Development and Investor Relations										
2023	**601,000**	**102,664**	**91,760**	**115,839**	**911,263**	**572,893**	**338,370**	**(106,076)**	**(5,078)**	**-**
2022	582,624	63,826	70,352	111,203	828,005	447,123	380,882	(69,740)	(17,286)	439,685
Matthew Rowe – Company Secretary										
2023	**325,000**	**63,033**	**42,267**	**53,153**	**483,453**	**300,413**	**183,040**	**(57,200)**	**(2,330)**	**-**
2022	309,000	33,851	36,771	48,535	428,157	231,205	196,952	(37,528)	(7,544)	219,551

^ There is an 'overlap' caused by the vesting of the 2018–22 LTIP occurring in the year ended 30 June 2023 (even though it was in respect of the four years ended 30 June 2022) and the amalgamation of the old ELTIP and Annual Incentive Plans which occurred for the year ending 30 June 2023.

The value of Incentive forfeited is the difference between the target amount and the amount awarded. See Table 9.

Note that some targets that measure performance over more than one year in the current year (e.g. EPS/Dividend growth) were measured over one year in the previous corresponding period. This means that amounts vesting under this element are shown as long term in the current year and short term in the previous year.

The differences between the amounts disclosed in Table 4 and the amounts in Table 6 are as follows:

* Prior year's LTI received in Table 4 shows the value of performance shares that vested during the year, measured at the closing price on the day that they were received. In contrast, Table 6 shows the accounting expense recognised in relation to the LTI plans during the year.

\# The future LTI in Table 4 reflected the potential future remuneration that might have been received by the executives over the next four years if the performance conditions are satisfied.

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

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 the form of additional superannuation contributions or fringe benefits. This will not affect the gross amount payable by the Group.

2.2 Incentive Plan

Table 5 below outlines the key terms and conditions of the Incentive Plan.

Table 5: Annual Incentives – Key Terms and Conditions

	Managing Director	**Other Executives**
Targeted % of FAR	100 per cent	50 per cent
Objectives	Align remuneration with the creation of shareholder wealth. 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 (20 per cent): Investment performance (60 per cent): Personal objectives (20 per cent) See Table 10 for more details	
Relative weightings of investment companies for investment and company related performance	AFIC: 40 per cent Djerriwarrh Investments Limited: 16 per cent AMCIL Limited: 12 per cent Mirrabooka Investments Limited: 12 per cent Personal objectives: 20 per cent (allocated on same basis as FAR)	
Delivery of award	Incentive is paid in cash, but 25 per cent of the pre-tax amount received is used by recipients to acquire shares in AFIC and/or the other investment companies which they agree to hold for minimum of four years.	
Performance measured in 2023	See Tables 1 and 2 for AFIC. Mirrabooka outperformed, Djerriwarrh outperformed on shorter term measures and AMCIL outperformed on longer term measures.	
Outcomes for 2023 (see Table 9 for details)	66 per cent	Average 65 per cent

The performance measures of the 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 would be noted as 'partially achieved' or 'in line' in Table 2. Where stretch levels of performance are achieved above target, then higher amounts may be paid at the discretion of the Board. 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 2023 please refer to Section B Annual Incentives: Details of Outcomes and Conditions in the Appendix.

2.3 Executive Long Term Incentive Plans (ELTIP)

For details of the previous Executive Long Term Incentive Plan (ELTIP) that vested during the year (with effect from 30 June 2022), please see the 2022 Annual Report, available on the Company's website (afi.com.au). The ELTIP has now been discontinued.

Management commentary
(no financial statements)

3. Executive Remuneration Expense

This section discloses the remuneration expense recognised under accounting standards for each executive (Table 6). These amounts are different to the remuneration outcomes disclosed in Table 4 as noted in that table.

Table 6: Remuneration Expense

	Short Term	Post-employment			Long Term Share-based Payments		
	Base Salary $	Super-annuation $	Total Fixed Remuneration $	Incentives $	LTI Cash-settled* $	Total Remuneration $	% Fixed/ Performance Related
Mark Freeman – Managing Director							
2023	885,900	27,500	913,400	598,277	-	1,511,677	60%/40%
2022	856,840	27,500	884,340	468,346	271,066	1,623,752	54%/46%
Andrew Porter – Chief Financial Officer							
2023	703,500	27,500	731,000	236,844	-	967,844	76%/24%
2022	679,972	27,500	707,472	161,940	115,976	985,388	72%/28%
Geoff Driver – General Manager – Business Development and Investor Relations							
2023	573,500	27,500	601,000	194,424	-	795,424	76%/24%
2022	555,124	27,500	582,624	134,178	95,517	812,319	72%/28%
Matthew Rowe – Company Secretary							
2023	297,500	27,500	325,000	105,300	-	430,300	76%/24%
2022	281,500	27,500	309,000	70,622	48,716	428,338	72%/28%

* 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). 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. Other than those in place at 30 June 2004 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 7.

Management commentary
(no financial statements)

Table 7: Non-Executive Director Remuneration

	Primary (Fee/ Base Salary) $	Post-employment (Superannuation) $	Total Remuneration $
J Paterson – Chairman			
2023	**201,106**	**4,894**	**206,000**
2022	195,455	4,545	200,000
RP Dee-Bradbury – Non-Executive Director			
2023	**100,553**	**2,447**	**103,000**
2022	95,455	4,545	100,000
CM Drummond – Non-Executive Director			
2023	**93,213**	**9,787**	**103,000**
2022	90,909	9,091	100,000
JA Fahey – Non-Executive Director			
2023	**93,213**	**9,787**	**103,000**
2022	90,909	9,091	100,000
GR Liebelt – Non-Executive Director			
2023	**103,000**	**-**	**103,000**
2022	97,727	2,273	100,000
DA Peever – Non-Executive Director			
2023	**93,213**	**9,787**	**103,000**
2022	90,909	9,091	100,000
CM Walter AM – Non-Executive Director			
2023	**93,213**	**9,787**	**103,000**
2022	90,909	9,091	100,000
PJ Williams – Non-Executive Director (retired 4 October 2022)			
2023	**24,317**	**2,553**	**26,870**
2022	90,909	9,091	100,000
Total Remuneration of Non-Executive Directors			
2023	**801,828**	**49,042**	**850,870**
2022	843,182	56,818	900,000

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 8. These amounts were expensed in prior years as the retirement allowances accrued.

Table 8: 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 Managing Director makes recommendations to the Remuneration Committee with regards to the remuneration levels and structure of the KMP.

Ernst & Young review 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 not paid during the year ended 30 June 2023 for remuneration advice (2022: $7,365) and during the year the Group paid $199,485 to EY for other professional advice received which included acting as the internal auditor for AICS and general taxation and accountancy advice, including advice on the format and layout of the Remuneration Report (2022: $162,063) (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 9 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 10 sets out the detailed terms and conditions of the annual incentives. For a high-level summary see Section 2.2 and Table 5.

Table 9: Annual Incentive Outcomes

Executive	% of Target Paid	$ Paid	% of Target Forfeited	$ Forfeited
Mark Freeman	66%	598,277	34%	315,123
Andrew Porter	65%	236,844	35%	128,656
Geoff Driver	65%	194,424	35%	106,076
Matthew Rowe	65%	105,300	35%	57,200

Management commentary
(no financial statements)

Table 10: Executive Annual Incentive Performance Conditions

Performance Areas and Relative Weighting	Performance Measures	Purpose of Measure
Company Performance (20 per cent) The relevant weightings of the investment companies are: • AFIC: 50 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 15 per cent • Mirrabooka Investments Limited: 15 per cent	• Operating result and dividend growth: measured over five years against CPI. • Management expense ratio (MER): at Board discretion, generally measured against prior years' results. • Dividend yield (DJW only).	• Net operating result 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'. The dividends of both MIR and AMH vary from year to year and are not a key objective for those companies. • MER reflects the costs of running the Company. • Maintaining a dividend yield above the market's is an important object for DJW.
Investment Performance (60 per cent) The relevant weightings of the investment companies are: • AFIC: 50 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 15 per cent • Mirrabooka Investments Limited: 15 per cent	• Relative investment return: measure of the return on the portfolio invested (including cash) over the previous one, three, five, and 10 years, relative to the S&P/ASX 200 Accumulation Index (Combined S&P/ASX Mid Cap 50 and Small Ordinaries for Mirrabooka and modified S&P/ASX 200 Accumulation Index for Djerriwarrh). • Risk/Reward: measure of the return that AFIC's portfolio generates as a ratio of the volatility risk that such a portfolio incurs. • Grossed-up 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 one, three, five, and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined S&P/ASX Mid Cap 50 and Small Ordinaries for Mirrabooka and modified S&P/ASX 200 Accumulation Index for Djerriwarrh).	The Board considers that the metrics used reflect, over the medium to long term, 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. • Risk/Reward: reflects the aim for AFIC's portfolio to be designed to face less volatility risk than the market generally. • Grossed-up 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. 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.
Personal Objectives (20 per cent) These costs are allocated to AFIC and to the LICs on the same proportion as the FAR.	Includes: • advice to the Board; • succession planning; • management of staff; • risk management; and • shareholder stewardship. These measures all contribute to the efficient running of the Group, and the other investment companies, enhancing investment outcomes.	Personal objectives are included in incentive calculations to encourage outperformance 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. 50 per cent is awarded based on the individual's capability and improvement and 50 per cent on alignment with the Company's values and culture.

For details of Incentive Plans that vested or were awarded in the comparative year, please see the 2022 Annual Report, available on the Company's website.

C. Directors and Executives: Equity Holdings and Other Transactions

Table 11 sets out reconciliations of shares 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 11: Shareholdings of Directors and Executives

	Opening Balance	Changes During Year	Closing Balance
J Paterson	615,332	-	615,332
RM Freeman	168,024	15,556	183,580
RP Dee-Bradbury	14,662	497	15,159
CM Drummond	13,271	50,450	63,721
JA Fahey	1,242	18	1,260
GR Liebelt	527,708	-	527,708
DA Peever	33,576	1,138	34,714
CM Walter	377,892	12,807	390,699
PJ Williams	49,756	n/a	-
GN Driver	150,527	8,598	159,125
MJ Rowe	8,982	4,625	13,607
AJB Porter	185,366	10,212	195,578

Other Arrangements with Non-Executive Directors

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

	Rental Income Received/Receivable $
C M Drummond	12,147
J Paterson	25,503
CM Walter	12,256

D. Potential Clawback of Incentives

The Directors consider that the Incentive Plan allows for sufficient 'clawback' in the case of a material misstatement of the Group's financial statements or in any other case where the Board considers that such remuneration would be an 'inappropriate benefit'.

The Directors, in their absolute discretion, may take such clawback actions as they deem necessary or appropriate to address the events that give rise to an 'inappropriate benefit'. Such actions may include:

1. cancelling or requiring the forfeiture of some or all of the Executive's incentive payments;
2. adjusting the Executive's future performance-based remuneration;
3. dismissing the Executive and/or initiating legal action; and/or
4. any other action the Directors consider appropriate.

The Directors are not required to show loss to the Company in order to determine that an 'inappropriate benefit' should be subject to clawback.

E. Detailed Performance Measures by Investment Company

Table 12 shows the performance of AFIC and the other investment companies over the past five years, including details of investment return and gross return (GR). These measures, which represent growth in shareholder wealth, are used in part to determine the vesting of AFIC's incentive plans to executives and the investment team.

Table 12: Detailed Performance Measures for AFIC and the Other Investment Companies

Year Ending 30 June	10-year Return	5-year Return	3-year Return	2023	2022	2021	2020	2019
Comparative Returns								
S&P/ASX 200 Accumulation Return	8.56%	7.16%	11.12%	14.78%	-6.47%	27.80%	-7.7%	11.6%
Modified S&P/ASX 200 Accumulation*	8.24%	7.16%	10.03%	12.59%	-6.47%	21.71%	-	-
Gross S&P/ASX 200 Accumulation Return	10.12%	8.63%	12.63%	16.64%	-5.12%	29.12%	-6.6%	13.4%
Modified Gross S&P/ ASX 200 Accumulation Return*	9.33%	8.29%	11.09%	13.90%	-5.12%	22.64%	-	-
Combined S&P/ASX Midcap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	9.70%	5.55%	9.36%	13.21%	-14.06%	34.42%	-2.6%	2.8%
Gross Combined S&P/ASX Midcap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	10.63%	6.35%	10.12%	14.19%	-13.52%	35.22%	-1.9%	3.8%
Yield on S&P/ASX 200 grossed up for franking credits	n/a	n/a	n/a	5.6%	5.1%	2.9%	5.8%	5.2%
Australian Foundation Investment Company Limited								
Mercer reward/risk	n/a	22nd/108	n/a	n/a	n/a	n/a	n/a	n/a
Growth in earnings per share	n/a	1.3%	8.1%	7.7%	42.9%	-18.0%	-34.5%	11.8%
Management expense ratio	n/a	n/a	n/a	0.14%	0.16%	0.14%	0.13%	0.13%
Gross return	9.34%	8.61%	11.89%	13.91%	-6.78%	31.92%	-3.1%	11.4%
Investment return	8.07%	7.52%	10.95%	12.81%	-7.08%	30.28%	-4.1%	9.8%
Djerriwarrh Investments Limited								
Growth in net operating result per share	n/a	n/a	8.0%	5.8%	30.9%	-4.5%	-26.0%	3.7%
Management expense ratio	n/a	n/a	n/a	0.40%	0.45%	0.45%	0.45%	0.43%
Gross return	7.78%	5.98%	11.43%	14.20%	-6.51%	29.58%	-11.5%	9.1%
Investment return	6.33%	5.20%	10.27%	13.60%	-6.21%	25.83%	-10.0%	6.8%
Gross yield on NTA at end of June	n/a	n/a	n/a	6.8%	6.5%	4.7%	5.6%	8.6%
Mirrabooka Investments Limited								
Management expense ratio	n/a	n/a	n/a	0.59%	0.46%	0.50%	0.63%	0.61%
Gross return	12.38%	9.80%	12.09%	17.91%	-20.87%	50.92%	7.1%	5.9%
Investment return	12.05%	9.79%	12.72%	18.08%	-19.04%	49.80%	6.3%	4.8%
AMCIL Limited								
Management expense ratio	n/a	n/a	n/a	0.66%	0.52%	0.56%	0.66%	0.72%
Gross return	9.46%	8.09%	8.61%	13.46%	-14.31%	31.76%	7.6%	7.0%
Investment return	9.38%	8.46%	9.78%	12.42%	-12.40%	34.36%	7.2%	5.8%

* Used for Djerriwarrh Investments Limited.

Management commentary (no financial statements)

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 31.

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

John Paterson
Chairman

26 July 2023

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2023, 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.

Kate L Logan

Kate L Logan
Partner
PricewaterhouseCoopers

Melbourne
26 July 2023

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

FINANCIAL STATEMENTS

Consolidated Income Statement

For the Year Ended 30 June 2023

	Note	2023 $'000	2022 $'000
Dividends and distributions	A3	334,740	388,492
Interest income from deposits	A3	3,714	61
Other revenue	A3	5,553	4,871
Total revenue		**344,007**	**393,424**
Net gains/(losses) on trading portfolio	A3	6,000	629
Income from operating activities		**350,007**	**394,053**
Finance costs		(1,265)	(845)
Administration expenses	B1	(17,987)	(19,165)
Profit before income tax expense		**330,755**	**374,043**
Income tax expense	B2, E2	(20,544)	(13,486)
Profit for the year		**310,211**	**360,557**
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		309,763	360,537
Minority interest		448	20
		310,211	360,557

		Cents	Cents
Basic earnings per share	A5	25.06	29.40

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

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2023

	Year to 30 June 2023			Year to 30 June 2022		
	Revenue[1] $'000	Capital[1] $'000	Total $'000	Revenue[1] $'000	Capital[1] $'000	Total $'000
Profit for the year	**310,211**	**-**	**310,211**	**360,557**	**-**	**360,557**
Other comprehensive income						
Items that will not be recycled through the Income Statement						
Gains/(losses) for the period	-	697,758	697,758	-	(1,008,188)	(1,008,188)
Tax on above	-	(210,319)	(210,319)	-	300,219	300,219
Total other comprehensive income	**-**	**487,439**	**487,439**	**-**	**(707,969)**	**(707,969)**
Total comprehensive income	**310,211**	**487,439**	**797,650**	**360,557**	**(707,969)**	**(347,412)**

1. 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities 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'.

Total comprehensive income is attributable to:

	Year to 30 June 2023			Year to 30 June 2022		
	Revenue $'000	Capital $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Equity holders of Australian Foundation Investment Company	309,763	487,439	797,202	360,537	(707,969)	(347,432)
Minority Interests	448	-	448	20	-	20
	310,211	**487,439**	**797,650**	**360,557**	**(707,969)**	**(347,412)**

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

Consolidated Balance Sheet

As at 30 June 2023

	Note	2023 $'000	2022 $'000
Current assets			
Cash	D1	165,385	144,619
Receivables		44,709	36,598
Trading portfolio		3,837	4,979
Total current assets		**213,931**	**186,196**
Non-current assets			
Investment portfolio	A2	8,749,226	8,082,513
Total non-current assets		**8,749,226**	**8,082,513**
Total assets		**8,963,157**	**8,268,709**
Current liabilities			
Payables		1,268	28,688
Borrowings – bank debt		10,000	10,000
Tax payable		32,156	62,567
Provisions		6,057	6,114
Total current liabilities		**49,481**	**107,369**
Non-current liabilities			
Provisions		90	896
Deferred tax liabilities – other		830	503
Deferred tax liabilities – investment portfolio	B2	1,355,200	1,169,452
Total non-current liabilities		**1,356,120**	**1,170,851**
Total liabilities		**1,405,601**	**1,278,220**
Net assets		**7,557,556**	**6,990,489**
Shareholders' equity			
Share capital	A1, D6	3,136,282	3,070,163
Revaluation reserve	A1, D3	2,926,191	2,556,466
Realised capital gains reserve	A1, D4	509,741	510,503
General reserve	A1	23,637	23,637
Retained profits	A1, D5	960,171	828,634
Parent entity interest		**7,556,022**	**6,989,403**
Minority interest		1,534	1,086
Total equity		**7,557,556**	**6,990,489**

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

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2023

Year Ended 30 June 2023	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**3,070,163**	**2,556,466**
Dividends paid to shareholders	A4	-	-
Dividend Reinvestment Plan	D6	66,268	-
Other share capital adjustments		(149)	-
Total transactions with shareholders		**66,119**	**-**
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net gains for the period		-	487,439
Other comprehensive income for the year		-	487,439
Transfer to realised capital gains of cumulative gains on investments sold		-	(117,714)
Total equity at the end of the year		**3,136,282**	**2,926,191**

Year Ended 30 June 2022	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**3,007,730**	**3,394,297**
Dividends paid to shareholders	A4	-	-
Dividend Reinvestment Plan	D6	62,584	-
Other share capital adjustments		(151)	-
Total transactions with shareholders		**62,433**	**-**
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net losses for the period		-	(707,969)
Other comprehensive income for the year		-	(707,969)
Transfer to realised capital gains of cumulative gains on investments sold		-	(129,862)
Total equity at the end of the year		**3,070,163**	**2,556,466**

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
510,503	**23,637**	**828,634**	**6,989,403**	**1,086**	**6,990,489**
(118,476)	-	(178,226)	(296,702)	-	(296,702)
-	-	-	66,268	-	66,268
-	-	-	(149)	-	(149)
(118,476)	**-**	**(178,226)**	**(230,583)**	**-**	**(230,583)**
-	-	309,763	309,763	448	310,211
-	-	-	487,439	-	487,439
-	-	-	487,439	-	487,439
117,714	-	-	-	-	-
509,741	**23,637**	**960,171**	**7,556,022**	**1,534**	**7,557,556**

Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
416,071	**23,637**	**716,221**	**7,557,956**	**1,066**	**7,559,022**
(35,430)	-	(248,124)	(283,554)	-	(283,554)
-	-	-	62,584	-	62,584
-	-	-	(151)	-	(151)
(35,430)	**-**	**(248,124)**	**(221,121)**	**-**	**(221,121)**
-	-	360,537	360,537	20	360,557
-	-	-	(707,969)	-	(707,969)
-	-	-	(707,969)	-	(707,969)
129,862	-	-	-	-	-
510,503	**23,637**	**828,634**	**6,989,403**	**1,086**	**6,990,489**

Consolidated Cash Flow Statement

For the Year Ended 30 June 2023

	Note	2023 $'000 Inflows/ (Outflows)	2022 $'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		20,042	20,888
Purchases for trading portfolio		(5,178)	(1,860)
Interest received		3,714	61
Dividends and distributions received		320,485	287,431
		339,063	306,520
Other revenue		5,877	4,962
Administration expenses		(18,909)	(18,383)
Finance costs paid		(1,265)	(845)
Taxes paid		(7,083)	(14,489)
Net cash inflow/(outflow) from operating activities	E1	**317,683**	**277,765**
Cash flows from investing activities			
Sales from investment portfolio		491,219	657,117
Purchases for investment portfolio		(490,993)	(662,366)
Taxes paid on sales from investment portfolio		(66,560)	(13,945)
Net cash inflow/(outflow) from investing activities		**(66,334)**	**(19,194)**
Cash flows from financing activities			
Net bank borrowings		-	10,000
Share issue transaction costs		(149)	(151)
Dividends paid		(230,434)	(220,923)
Net cash inflow/(outflow) from financing activities		**(230,583)**	**(211,074)**
Net increase/(decrease) in cash held		20,766	47,497
Cash at the beginning of the year		144,619	97,122
Cash at the end of the year	D1	**165,385**	**144,619**

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 CONSOLIDATED 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:

	2023 $'000	2022 $'000
Share capital	3,136,282	3,070,163
Revaluation reserve	2,926,191	2,556,466
Realised capital gains reserve	509,741	510,503
General reserve	23,637	23,637
Retained profits	960,171	828,634
	7,556,022	**6,989,403**

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 and an additional small sub-component of international (i.e. non-Australian/New Zealand listed stocks). 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 (all at market value) was:

	2023 $'000	2022 $'000
Equity instruments (excluding below)	7,834,313	7,492,259
Equity instruments (over which options may be written)	799,527	501,059
Equity instruments (listed on non-Australian/NZ Exchanges)	115,386	89,195
	8,749,226	**8,082,513**

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 2023 and 30 June 2022 were as follows:

	30 June 2023 $	30 June 2022 $
Net tangible asset backing per share		
Before tax	**7.19**	**6.63**
After tax	6.09	5.68

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 from the investment portfolio, 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 $538.7 million (2022: $729.0 million) of equity securities were sold. The cumulative gain on the sale of securities was $117.7 million for the period after tax (2022: $129.9 million). 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 2023 is set out below.

Dividends and Distributions	2023 $'000	2022 $'000
Income from securities held in investment portfolio at 30 June	328,188	383,115
Income from investment securities sold during the year	6,552	5,166
Income from securities held in trading portfolio at 30 June	-	211
Income from trading securities sold during the year	-	-
	334,740	**388,492**
Interest income		
Revenue from deposits and cash management trusts	3,714	61
Other revenue		
Administration fees	5,553	4,871

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.

Net Gains		2023 $'000	2022 $'000
Net realised gains/(losses) from trading portfolio	– shares	48	224
	– options	4,542	1,008
Unrealised gains/(losses) from trading portfolio	– shares	1,010	(641)
	– options	400	38
		6,000	**629**

$145.3 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2022: $131.6 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 $155.8 million worth of securities at an agreed price – the 'exposure' (2022: $21.4 million). There were no put options in the portfolio at 30 June 2023 (2022: $nil).

A4. Dividends Paid

The dividends paid and payable for the year ended 30 June 2023 are shown below:

	2023 $'000	2022 $'000
(a) Dividends Paid During the Year		
Final dividend for the year ended 30 June 2022 of 14 cents fully franked at 30 per cent paid 30 August 2022 (2022: 14 cents fully franked at 30 per cent paid on 31 August 2021).	165,866	165,339
Interim dividend for the year ended 30 June 2023 of 11 cents per share fully franked at 30 per cent paid 24 February 2023 (2022: 10 cents fully franked at 30 per cent paid 25 February 2022)	130,836	118,215
	296,702	**283,554**
Dividends paid in cash	230,434	220,970
Dividends reinvested in shares	66,268	62,584
	296,702	**283,554**
Dividends forgone via DSSP	11,400	9,767
(b) Franking Credits		
Opening balance of franking account at 1 July	197,933	158,009
Franking credits on dividends received	109,312	138,158
Tax paid during the year	73,512	27,561
Franking credits paid on ordinary dividends paid	(127,158)	(121,523)
Franking credits deducted on DSSP shares issued	(4,887)	(4,272)
Closing balance of franking account	**248,712**	**197,933**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	41,364	69,967
Adjusted closing balance	**290,076**	**267,900**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(74,421)	(73,794)
Net available	**215,655**	**194,106**
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	503,195	452,914

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 Consolidated Financial Statements

continued

	2023 $'000	2022 $'000
(c) New Zealand Imputation Account		
(Figures in A$ at year-end exchange rate: 2023: $NZ1.085:$A1; 2022: $NZ1.073:$A1)		
Opening balance	18,898	13,261
Imputation credits on dividends received	6,970	5,848
Imputation credits on dividends paid	(15,429)	-
Closing balance	**10,439**	**19,109**

A NZ imputation credit on NZ 3.5 cents of the dividend was attached to the final dividend paid on 30 August 2022. There is no NZ imputation credit attached to the proposed final dividend for the year ended 30 June 2023.

(d) Dividends Declared After Balance Date

	2023 $'000	2022 $'000
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 2023 to be paid on 1 September 2023, but not recognised as a liability at the end of the financial year is:	173,649	

(e) Listed Investment Company Capital Gain Account

	2023 $'000	2022 $'000
Balance of the Listed Investment Company (LIC) capital gain account at 1 July:	158,619	43,793
Capital gains (including LIC gains received from dividends)	52,670	150,256
LIC gains paid as part of dividend	(118,476)	(35,430)
Balance at 30 June	92,813	158,619
This equates to an attributable gain of:	132,590	226,599

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. $124.0 million attributable gain is attached to the final dividend to be paid on 1 September 2023.

A5. Earnings Per Share

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

Basic Earnings Per Share	2023 Number	2022 Number
Weighted average number of ordinary shares used as the denominator	1,236,299,822	1,226,476,015
	$'000	**$'000**
Profit for the year	309,763	360,537
	Cents	**Cents**
Basic earnings per share	25.06	29.40

Excluding the Woodside/BHP Petroleum merger dividend for the year ended 30 June 2022, the basic earnings per share figure was 23.3 cents.

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2023 $'000	2022 $'000
Rental expense relating to non-cancellable leases	(648)	(760)
Employee benefit expenses	(11,093)	(12,819)
Depreciation charge	-	-
Other administration expenses	(6,246)	(5,586)
	(17,987)	**(19,165)**

Employee Benefit Expenses

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

	Short Term Benefits $	Post-employment Benefits $	Share-based Payments $	Total $
2023				
Non-Executive Directors	801,828	49,042	-	850,870
Executives	3,595,245	110,000	-	3,705,245
Total	**4,397,073**	**159,042**	**-**	**4,556,115**
2022				
Non-Executive Directors	843,182	56,818	-	900,000
Executives	3,208,522	110,000	531,275	3,849,797
Total	**4,051,704**	**166,818**	**531,275**	**4,749,797**

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group (i.e. AFIC and its subsidiary, Australian Investment Company Services Ltd (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 Consolidated 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

	2023 $'000	2022 $'000
Profit before income tax expense	**330,755**	**374,073**
Tax at the Australian tax rate of 30 per cent (2022: 30 per cent)	99,226	112,222
Tax offset for franked dividends received	(76,518)	(96,709)
Sundry items whose tax treatment differs from accounting treatment	(665)	(403)
	22,043	**15,110**
Over provision in prior years	(1,499)	(1,624)
Total tax expense	**20,544**	**13,486**

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.

	2023 $'000	2022 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	**1,355,200**	**1,169,452**
Opening balance at 1 July	1,169,452	1,536,231
Tax on realised gains	(24,571)	(66,560)
Charged to OCI for ordinary securities on gains or losses for the period	210,319	(300,219)
	1,355,200	**1,169,452**

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 Listed Investment Company 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 $306.2 million and $612.4 million respectively, at a tax rate of 30 per cent (2022: $282.9 million and $565.8 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:

	2023 %	2022 %
Energy	3.41	3.26
Materials	15.46	14.29
Industrials	12.58	12.68
Consumer Discretionary	7.41	7.07
Consumer Staples	5.42	5.19
Banks	18.42	18.36
Other Financials	9.00	9.14
Real Estate	3.44	2.97
Telecommunications	6.25	5.87
Healthcare	14.00	14.77
Information Technology	2.73	4.61
Utilities	0.03	0.03
Cash	1.85	1.76
Securities representing over 5 per cent of the investment portfolio at 30 June were		
BHP	9.1	7.1
Commonwealth Bank	8.9	8.8
CSL	7.7	7.9
Transurban	4.4	5.1

AFIC is also not directly exposed to material currency risk as most of its investments are quoted in Australian dollars. The international portfolio is a minor (1.3 per cent) part of the total portfolio (2022: 1.1 per cent).

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 (including with a custodian) 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 balance 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. As at 30 June 2023, no such investments are held (2022: nil). AFIC engages a custodian, Northern Trust, to hold the shares that are in the sub-component of the investment portfolio that contains international shares. AFIC receives a GS007 report on Internal Controls for Custody, Investment Administration, Registry Monitoring and Related Information Technology Services from Northern Trust every six months.

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 2023	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	1,268	-	-	1,268	1,268
Borrowings	10,000	-	-	10,000	10,000
	11,268	**-**	**-**	**11,268**	**11,268**
Derivatives					
Options in trading portfolio*	-	-	-	-	-
	-	**-**	**-**	**-**	**-**

30 June 2022	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	28,688	-	-	28,688	28,688
Borrowings	10,000	-	-	10,000	10,000
	38,688	**-**	**-**	**38,688**	**38,688**
Derivatives					
Options in trading portfolio*	-	-	-	-	-
	-	**-**	**-**	**-**	**-**

* 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 the purpose of the above disclosure that all options will be exercised (i.e. maximum cash outflow). There were no put options outstanding at 30 June 2023 or 30 June 2022.

C. Unrecognised Items

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

These notes provide further information about the basis of calculation of line items in the financial statements.

D1. Current Assets – Cash

	2023 $'000	2022 $'000
Cash at bank	755	747
Cash with custodian	4,359	5,660
Cash Management Trusts	160,271	138,212
	165,385	**144,619**

Cash holdings yielded an average floating interest rate of 2.97 per cent (2022: 0.08 per cent). All cash investments are held in a transactional account, with a custodian or in an overnight 'at call' account invested in cash management trusts which invest predominantly in short term securities with an A1+ rating.

D2. Credit Facilities

	2023 $'000	2022 $'000
Commonwealth Bank of Australia – cash advance facility	110,000	110,000
Amount drawn down at 30 June	0	0
Undrawn facilities at 30 June	110,000	110,000
National Australia Bank – cash advance facility	20,000	20,000
Amount drawn down at 30 June	10,000	10,000
Undrawn facilities at 30 June	10,000	10,000
Total short term loan facilities	130,000	130,000
Total drawn down at 30 June	10,000	10,000
Total undrawn facilities at 30 June	**120,000**	**120,000**

The above borrowings, with the exception of the NAB facility, 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 and hence are classified as current liabilities when drawn.

The debt facility with National Australia Bank is structured in the form of a securities lending arrangement. The terms of the agreement require that securities be pledged as collateral for the drawn secured borrowings under that facility and that such securities currently satisfy a minimum value of $11 million (110 per cent of the total drawn facility). These securities are held by the National Australia Bank but included as part of the Company's investment portfolio. As at 30 June 2023 the market value of the securities pledged as collateral was $14.6 million (2022: $12.2 million).

D3. Revaluation Reserve

	2023 $'000	2022 $'000
Opening balance at 1 July	2,556,466	3,394,297
Gains/(losses) on investment portfolio		
– Equity Instruments	697,758	(1,008,188)
Provision for tax on above	(210,319)	300,219
Cumulative taxable realised (gains)/losses (net of tax)	(117,714)	(129,862)
	2,926,191	**2,556,466**

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

D4. Realised Capital Gains Reserve

	2023 $'000	2022 $'000
Opening balance at 1 July	510,503	416,071
Dividends paid	(118,476)	(35,430)
Cumulative taxable realised gains/(losses)(net of tax)	117,714	129,862
	509,741	**510,503**

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

D5. Retained Profits

	2023 $'000	2022 $'000
Opening balance at 1 July	828,634	716,221
Dividends paid	(178,226)	(248,124)
Profit for the year	309,763	360,537
	960,171	**828,634**

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
1/07/2021	Balance		1,220,837		3,007,730
31/08/2021	Dividend Reinvestment Plan	i	4,507	8.10	36,511
31/08/2021	Dividend Substitution Share Plan	ii	687	8.10	n/a
25/02/2022	Dividend Reinvestment Plan	i	3,317	7.86	26,073
25/02/2022	Dividend Substitution Share Plan	ii	558	7.86	n/a
Various	Costs of issue		-	-	(151)
30/06/2022	Balance		1,229,906		3,070,163
30/08/2022	Dividend Reinvestment Plan	i	4,883	7.56	36,914
30/08/2022	Dividend Substitution Share Plan	ii	836	7.56	n/a
24/02/2023	Dividend Reinvestment Plan	i	4,027	7.29	29,354
24/02/2023	Dividend Substitution Share Plan	ii	697	7.29	n/a
Various	Costs of issue		-	-	(149)
30/06/2023	Balance		**1,240,349**		**3,136,282**

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 Cboe 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 (2022: 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

	2023 $'000	2022 $'000
Profit for the year	**310,211**	**360,557**
Net decrease/(increase) in trading portfolio	1,142	(234)
Dividends received as securities under DRP investments	(16)	(74,888)
Decrease/(increase) in current receivables	(8,111)	3,413
– Less increase/(decrease) in receivables for investment portfolio	3,223	(9,875)
Increase/(decrease) in deferred tax liabilities	186,075	(366,217)
– Less (increase)/decrease in deferred tax liability on investment portfolio	(185,748)	366,779
Increase/(decrease) in current payables	(27,420)	27,668
– Less increase/(decrease) in dividends payable	2	(46)
– Less (increase)/decrease in payables for investment portfolio	27,610	(27,610)
Increase/(decrease) in provision for tax payable	(30,411)	49,946
Capital gains tax charge taken through equity	(24,571)	(66,560)
Prior year taxes paid relating to capital gains	66,560	13,945
Increase/(decrease) in other provisions/non-cash items	(863)	887
Net cash flows from operating activities	**317,683**	**277,765**

E2. Tax Reconciliations

Tax Expense Composition

	2023 $'000	2022 $'000
Charge for tax payable relating to the current year	21,716	14,548
Over provision in prior years	(1,499)	(1,624)
Increase/(decrease) in deferred tax liabilities	327	562
	20,544	**13,486**
Amounts Recognised Directly Through Other Comprehensive Income		
Net movement in deferred tax liabilities relating to capital gains tax on the movement in gains/losses in the investment portfolio	210,319	(300,219)
	210,319	**(300,219)**

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

	2023 $'000	2022 $'000
(a) Tax on unrealised gains or losses in the trading portfolio	(423)	(161)
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,929	2,111
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(2,336)	(2,453)
	(830)	**(503)**
Movements:		
Opening balance at 1 July	(503)	59
Credited/(charged) to Income statement	(327)	(562)
	(830)	**(503)**

Deferred tax assets and liabilities 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.

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 J Paterson, C Drummond and C Walter have rented office space and, for 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 $45,369 (2022: $51,824).

(b) AICS Transactions With Minority Interests

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

	2023 $'000	2022 $'000
Administration expenses charged for the year	2,442	2,262

(c) AICS Transactions with Other Listed Investment Companies

AICS had the following transactions with other Listed Investment Companies to which it provides services:

	2023 $'000	2022 $'000
Administration expenses charged for the year to Mirrabooka Investments Ltd	2,058	1,702
Administration expenses charged for the year to AMCIL Ltd	1,216	1,021

F2. Remuneration of Auditors

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

	2023 $	2022 $
PricewaterhouseCoopers		
Audit services		
Audit or review of financial reports	176,496	163,106
Audit related Services		
AFSL compliance audit and review	9,098	8,707
Permitted non-audit services		
Review of realised CGT balances	63,702	51,728
Preparation and lodgement of tax returns	35,864	34,370
Assistance with ATO Combined Assurance Review	-	41,800
Total remuneration	**285,160**	**299,711**

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 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 (noting that the investment portfolio contains sub-components for ease of administration). 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 one investment comprising more than 10 per cent of AFIC's income – BHP 17.3 per cent (2022: one investment: BHP (35.6 per cent including the Woodside/BHP Petroleum merger dividend)).

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 26 July 2023 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 2023 ('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 Note 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. The Group had no convertible notes on issue for the years ended 30 June 2023 or 30 June 2022.

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 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 Incentive Plan and the Employee Share Acquisition Scheme.

For the Employee Share Acquisition Scheme and the Executive 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 and, in the case of performance of the Group and other investment companies, longer term performance of up to 10 years. For the Employee Share Acquisition Scheme and a portion of the Executive Incentive Plan, 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 both the Executive Incentive Plan and the Investment Team Incentive Plan is recognised on the Balance Sheet.

The Executive Long Term Incentive Plan was discontinued during the year and the Executive Incentive Plan was modified to take this into account. No further awards will be made under the Executive Long Term Incentive Plan – the 2019/20, 2020/21 and 2021/22 Plans have all been cancelled.

62,569 shares vested during the year in respect of the 2018/19 plan (2022: 45,680). No further shares are eligible for vesting.

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 License 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 Incentive Arrangements

Share Incentive Arrangements

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 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 25 per cent of the pre-tax amount being used by the executive to purchase shares in AFIC and/or the other LICs. 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 four 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.

37,897 shares for both the former Executive Long Term Incentive and former Annual Incentive Plans (2022: 27,429 shares) were purchased by Executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $276,813 (2022: $220,476).

(ii) Executive Long Term Incentive Plan (Discontinued)

An amount of $798,000 was written back as a result of the discontinuation of the 2019/20, 2020/21 and 2021/22 Plans.

1,632 rights under the 2018/19 plan were forfeited during the year (2.5 per cent).

(b) Employee Share Acquisition Scheme (ESAS)

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 needs 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% 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, 58 per cent of the possible maximum was awarded, and 50 per cent of this was used to buy shares in Mirrabooka Investments Limited, as part of the Group's policy of rotating these purchases amongst the LICs other than AFIC to which AICS provides services.

(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) were as follows:

	2023 $'000	2022 $'000
Share-based payment expense (ESAS only in 2023)	55	599

(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 Note F10 below, 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:

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2023	Equity Holding 2022
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. Lease Commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for six years with effect from 1 July 2022 (prior year comparatives represent the former lease). Current commitments relating to leases at balance date, for the current lease (including GST), is:

	2023 $'000	2022 $'000
Due within one year	534	508
Later than one year but less than five	2,416	2,302
Greater than five years	-	648
	2,950	**3,458**

F10. Parent Entity Financial Information

Summary Financial Information

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

	2023 $'000	2022 $'000
Balance Sheet		
Current assets	203,360	177,347
Total assets	**8,952,645**	**8,257,705**
Current liabilities	43,607	101,688
Total liabilities	**1,401,070**	**1,271,402**
Shareholders' equity		
Issued capital	3,136,432	3,070,313
Reserves		
Revaluation reserve	2,926,191	2,556,466
Realised capital gains reserve	509,741	510,503
General reserve	23,637	23,637
Retained earnings	955,574	825,384
	4,415,143	**3,915,990**
Total shareholders' equity	**7,551,575**	**6,986,303**
Profit or loss for the year	**308,418**	**360,477**
Total comprehensive income	**795,857**	**(347,492)**

DIRECTORS' DECLARATION

In the Directors' opinion:

(1) the financial statements and notes set out on pages 33 to 55 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 2023 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 2023. 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
26 July 2023

pwc

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 2023 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 2023
- 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 significant accounting policies and other explanatory information
- 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

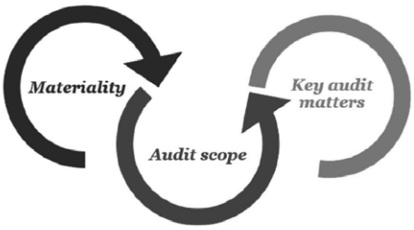
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the 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.

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999

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 $75.5m, 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 report for risks of material misstatement in account balances, classes of transactions 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.

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* $8,749.2m The Investment Portfolio consists mainly of listed Australian equities, as well as a smaller portfolio of listed international equities. Whilst there is no significant judgement in determining the existence or 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 consolidated balance sheet. The fluctuations in investment valuation will also impact the realised and unrealised gains/(losses) recognised in the consolidated statement of comprehensive income, which also impacts 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) Agreed the investment quantity holdings at 30 June 2023 to third party confirmations or registry sources. 2) Obtained the purchases and sales listing for the year ended 30 June 2023 and agreed a sample of purchases and sales to contracts. 3) Performed a reconciliation of the opening investment balances and the number of units, plus addition/subtraction of purchases, sales and other relevant transactions, and agreed this back to the 30 June 2023 closing investment positions 4) Agreed listed equities investment prices to third party market pricing sources.

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 2023, 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

pwc

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 18 to 29 of the directors' report for the year ended 30 June 2023.

In our opinion, the remuneration report of Australian Foundation Investment Company Limited for the year ended 30 June 2023 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

PricewaterhouseCoopers

Kate L Logan

Kate L Logan
Partner

Melbourne
26 July 2023

Information About Shareholders

At 20 July 2023 there were 163,674 holdings of ordinary shares. These holdings were distributed in the following categories:

Size of Holding	Shareholdings	Percentage
1 to 1,000	63,667	2.02
1,001 to 5,000	52,653	10.73
5,001 to 10,000	20,656	12.05
10,001 to 100,000	25,659	50.83
100,000 and over	1,039	24.37
Total	**163,674**	**100.00**

Percentage held by the 20 largest holders	7.67%
Average shareholding	7,578

There were 5,528 shareholdings of less than a marketable parcel of $500 (71 shares).

Voting Rights of Ordinary Shares

The Constitution provides for votes to be cast:

(i) on a show of hands, 1 vote for each shareholder; and

(ii) on a poll, 1 vote for each fully paid ordinary share.

Major Shareholders

The 20 largest registered holdings of ordinary shares as at 20 July 2023 are listed below:

Ordinary Shares

Rank	Name	Units	% Units
1	HSBC Custody Nominees (Australia) Limited	24,641,785	1.99
2	Citicorp Nominees Pty Limited	12,264,671	0.99
3	Netwealth Investments Limited <Wrap Services A/C>	9,176,463	0.74
4	Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	4,800,171	0.39
5	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	4,334,141	0.35
6	Bougainville Copper Limited	4,078,717	0.33
7	Navigator Australia Ltd <MLC Investment Sett A/C>	3,926,480	0.32
8	IOOF Investment Services Limited <IPS Superfund A/C>	3,887,767	0.31
9	Netwealth Investments Limited <Super Services A/C>	3,885,728	0.31
10	Evanson Pty Ltd	3,805,838	0.31
11	Custodial Services Limited <Beneficiaries Holding A/C>	3,393,667	0.27
12	Bushways Pty Ltd	2,570,592	0.21
13	Jamama Nominees Pty Limited	2,369,858	0.19
14	Investment Custodial Services Limited <C A/C>	2,220,240	0.18
15	IOOF Investment Services Limited <IOOF IDPS A/C>	1,829,230	0.15
16	J P Morgan Nominees Australia Pty Limited	1,678,997	0.14
17	Custodial Services Limited <A/C 4>	1,647,200	0.13
18	Australian Executor Trustees Limited	1,590,645	0.13
19	BNP Paribas Noms (NZ) Ltd <DRP>	1,551,563	0.13
20	Twibill Pty Ltd	1,443,216	0.12

Management commentary
(no financial statements)

Sub-underwriting

During the year the Company did not participate as a sub-underwriter in any issues of securities.

Substantial Shareholders

The Company has not been notified of any substantial shareholders.

Transactions in Securities

During the year ended 30 June 2023, the Company recorded 686 transactions in securities (including options). $2,645,576 in brokerage (including GST) was paid or accrued for the year.

Major Transactions in the Investment Portfolio

Acquisitions	Cost ($m)
BHP	148.1
National Australia Bank	50.4
IDP Education	39.4
Domino's Pizza Group	23.4
Santos	19.1

Management commentary
(no financial statements)

Disposals	Proceeds ($m)
NEXTDC	69.9
Brambles	40.2
Orica*	39.0
IRESS	38.3
InvoCare*	38.3

* Complete disposal from the portfolio.

New Companies Added to the Portfolio

Breville Group

Management commentary
(no financial statements)

Holdings of Securities

at 30 June 2023

Individual investments for the combined Investment and Trading portfolios as at 30 June 2023 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 2022 '000	Number Held 2023 '000	Market Value 2023 $'000
AIA	Auckland International Airport	10,300	10,300	80,854
ALQ	ALS	7,622	7,622	85,063
AMC	Amcor	11,600	10,415	154,767
ANN	Ansell	1,369	1,369	36,590
ANZ	ANZ Group Holdings	8,488	8,098	191,997
ARB	ARB Corporation	3,473	3,640	104,104
ASX	ASX	1,432	1,432	90,216
AUB	AUB Group	2,378	2,121	62,357
BHP	BHP	13,926	17,634	793,338
BRG	Breville Group	0	702	14,008
BXB	Brambles	9,279	6,200	89,342
CAR*	Carsales.com	8,026	6,778	161,240
CBA	Commonwealth Bank of Australia	7,900	7,809	783,008
COH	Cochlear	334	334	76,549
COL*	Coles Group	9,023	9,722	179,013
CPU	Computershare	4,043	4,265	99,716
CSL	CSL	2,372	2,431	674,311
CWY	Cleanaway Waste Management	17,014	18,185	47,099
DJW	Djerriwarrh Investments	7,505	7,505	21,315
DMP	Domino's Pizza Enterprises	653	1,093	50,756
DUI	Diversified United Investments	12,030	12,030	59,189
EQT	EQT Holdings	1,322	1,647	42,702
FCL	FINEOS Corporation	9,253	9,253	20,541
FPH	Fisher & Paykel Healthcare Corporation	3,913	3,913	88,188
GMG	Goodman Group	8,835	9,655	193,776
IAG*	Insurance Australia Group	9,527	8,100	45,613

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2022 ’000	Number Held 2023 ’000	Market Value 2023 $’000
IEL	IDP Education	790	2,505	55,366
IRE	IRESS	8,211	3,975	40,741
JBH	JB Hi-Fi	1,131	1,131	49,493
JHX*	James Hardie Industries	5,245	5,425	215,057
MFT	Mainfreight (NZX Listed)	3,268	2,819	186,802
MGR	Mirvac Group	22,000	29,350	66,331
MIR	Mirrabooka Investments	8,728	8,728	23,914
MQG*	Macquarie Group	2,207	2,240	397,749
NAB*	National Australia Bank	11,155	12,950	341,301
NAN	Nanosonics	5,970	5,853	27,745
NWL	Netwealth Group	3,489	3,489	48,288
NXT	NEXTDC	7,864	1,744	21,936
PXA	PEXA Group	2,919	3,299	44,897
REA	REA Group	644	644	92,155
REH	Reece	7,201	7,264	134,893
RHC	Ramsay Health Care	1,583	1,226	69,012
RIO	Rio Tinto	1,862	1,862	213,555
RMD	ResMed	4,750	4,390	144,036
SEK*	Seek	3,333	3,795	82,391
SHL	Sonic Healthcare	3,320	3,320	118,081
STO*	Santos	11,286	13,921	104,451
TCL*	Transurban Group	28,791	27,115	386,304
TLS	Telstra Corporation	48,680	48,680	209,325
WBC	Westpac Banking Corporation	15,545	15,125	322,768
WDS*	Woodside Energy Group	5,816	5,816	200,099
WES	Wesfarmers	7,372	7,372	363,734
WOW*	Woolworths Group	7,175	7,355	292,171
WTC	Wisetech Global	250	420	33,520
XRO	Xero	833	891	105,907
Total				**8,637,677**

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

Holdings of International Securities

at 30 June 2023

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2022	Number Held 2023	Market Value 2023 A$
ACN-US	Accenture	5,506	5,506	2,552,471
AENA-ES	Aena	10,728	8,108	1,966,758
GOOGL-US	Alphabet	1,534	31,314	5,630,883
AMZN-US	Amazon	23,360	23,360	4,574,822
AAPL-US	Apple	21,658	20,058	5,844,901
CP-US	Canadian Pacific	0	14,372	1,743,898
SCHW-US	Charles Schwab	27,651	30,501	2,597,160
CMG-US	Chipotle	1,325	1,115	3,582,941
CTAS-US	Cintas	3,414	2,851	2,129,013
COST-US	Costco	2,976	2,976	2,406,989
CCI-US	Crown Castle	10,886	10,886	1,863,357
EL-US	Estee Lauder	5,037	5,037	1,486,016
FERG-GB	Ferguson	12,851	12,851	3,045,944
FTNT-US	Fortinet	24,220	24,220	2,750,423
FCX-US	Freeport	0	17,870	1,073,808
HCA-US	HCA Healthcare	10,619	9,164	4,178,051
HD-US	Home Depot	6,284	6,034	2,815,887
ICE-US	Intercontinental	15,643	16,678	2,833,259
JPM-US	JP Morgan	12,029	14,176	3,097,314
OR-FR	L'Oreal	3,018	2,568	1,797,651
MC-FR	LVMH Moet	2,155	2,191	3,099,082

Management commentary
(no financial statements)

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2022	Number Held 2023	Market Value 2023 A$
MAR-US	Marriott	9,615	8,715	2,404,991
MA-US	Mastercard	3,461	3,461	2,044,932
MCD-US	McDonalds	8,702	7,442	3,336,249
META-US	Meta	2,889	7,433	3,204,589
MSFT-US	Microsoft	16,083	16,463	8,422,306
NESN-CH	Nestle	18,826	20,806	3,759,228
NFLX-US	Netflix	3,792	3,322	2,198,300
NEE-US	Nextera	20,749	20,749	2,312,891
NKE-US	Nike	13,173	13,173	2,184,215
NOVOB-DK	Novo Nordisk	12,978	11,768	2,847,856
NVDA-US	NVIDIA	0	2,555	1,623,703
PEP-US	PepsiCo	10,474	9,294	2,586,056
ROG-CH	Roche	5,035	5,545	2,546,597
SPGI-US	S&P Global	3,927	3,927	2,365,036
SU-FR	Schneider	10,228	10,851	2,960,478
SBUX-US	Starbucks	11,612	11,612	1,728,098
TMO-US	Thermo Fisher	3,523	2,773	2,173,533
UNH-US	United Health	0	3,125	2,256,438
UMG-NL	Universal Music	0	47,498	1,584,058
V-US	Visa	4,977	4,977	1,775,595
Total				**115,385,777**

Management commentary
(no financial statements)

Issues of Securities

Date of Issue	Type	Price	Remarks
24 February 2023	DRP/DSSP	$7.29	2.5 per cent discount
30 August 2022	DRP/DSSP	$7.56	5 per cent discount
25 February 2022	DRP/DSSP	$7.86	5 per cent discount
31 August 2021	DRP/DSSP	$8.10	3.5 per cent discount
23 February 2021	DRP/DSSP	$7.10	5 per cent discount
1 September 2020	DRP/DSSP	$6.30	
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

Management commentary
(no financial statements)

Date of Issue	Type	Price	Remarks
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.

Management commentary
(no financial statements)

Company Particulars

Australian Foundation Investment Company Limited (AFIC)

ABN 56 004 147 120

Directors

John Paterson, Chairman
Mark Freeman, Managing Director
Rebecca P Dee-Bradbury
Craig M Drummond
Julie A Fahey
Graeme R Liebelt
David A Peever
Catherine M Walter AM

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
Email invest@afi.com.au
Website 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 Address
Computershare Investor Services Limited
159 Hurstmere Road
Takapuna Auckland 0622

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

For all enquiries 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

Time	10.00am
Date	Tuesday 3 October 2023
Venue	Zinc at Federation Square
Location	Corner of Flinders Street and Swanston Street Melbourne

The AGM will be a hybrid meeting with a physical meeting and access via an online platform. Further details are provided in the Notice of Annual General Meeting.

Management commentary
(no financial statements)

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

MDM Design
Printed on environmentally friendly paper