Australian Shareholders' Association

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Voting Intentions – Australian Foundation Investment Company 2021 AGM

ASX Code	AFI
Meeting Time/Date	10am, Tuesday 5 October 2021
Type of Meeting	Hybrid (Clarendon Auditorium, Melbourne Convention and Exhibition Centre (*subject to COVID restrictions)* or via Lumi Platform)
Monitor	Jason Cole assisted by Dennis Shore and Frank Thompson
Pre AGM Meeting?	Yes - with John Paterson (Chair), Mark Freeman (Managing Director), Andrew Porter (Chief Financial Officer), Geoff Driver (General Manager Business Development and Investor Relations) and Matthew Rowe (Company Secretary)

Proposed Voting Summary

2	Adoption of Remuneration Report	For
3	Election of Director – Mr Craig Drummond	For
4	Election of Director – Ms Julie Fahey	For
5	Re-election of Director – Mr Graeme R Liebelt	For
6	Renewal of Proportional Takeover Provisions in the Constitution	For

Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT ($m)	235.1	240.4	406.4	279.0	245.3
Underlying NPAT ($m)	235.1	240.4	406.4	279.0	245.3
Statutory EPS (cents)	19.3	19.9	34.0	23.6	21.3
Dividend per Share (cents)	24	24	32	24	24
Share Price at End of FY ($)	7.82	6.09	6.25	6.16	5.81
Statutory CEO Remuneration ($)	1.46	1.12	1.10	1.07	0.96
Total Shareholder Return (%)	35.2	2.9	9.2	10.3	8

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company.

Summary of Historical ASA Issues with the

In previous years the then 8 member AFI board had been below the target sought by the ASA of at least 30% male and 30% female directors. AFI had their own objective to meet this target by June 2020, however COVID-19 restricted their ability to achieve this last year. See below for 2021 developments.

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

2021 Developments

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

Positives

- The Board has a majority of independent directors with 6/9 now considered independent under ASA guidelines. This is an improvement from the previous year when only 50% met ASA criteria.
- The Board has at least 30% female and at least 30% male directors, now meeting ASA guidelines for gender diversity.
- Directors and other KMP are investing at least one year's worth of base cash fees in company shares, within 3 to 5 years.
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them, although the company was rated in a Lonsec product review as being low to moderate relative to peers in this area.

  This perception was raised with company representatives who gave a strong defence of their ESG commitment. They believe that ESG awareness is embedded in their investment 'DNA', as investing in sustainable businesses is vital to their success. AFI consider that they may have to improve the promotion of their commitment to ESG issues to the wider public.

Areas for Improvement

- The company does not disclose a meaningful skills matrix of the board easily accessible by shareholders and this was again raised with company representatives. Whilst internally the board have a skills matrix which they use to identify skill gaps, the company's preference is to provide this information in a biographical format as is currently the case.

Summary

In previous years the board has not met ASA guidelines regarding Director independence or gender diversity. Board renewal that occurred in the previous financial year has resulted in the current 9-member AFI board now being well aligned with ASA guidelines. Two Directors have served more than the ASA's preferred 12-year tenure, but as has been discussed in previous year's voting intentions, director longevity is an integral part of the AFI investment structure, and the ASA has been supportive of this aspect previously.

Items for Voting

Item 2	Adoption of Remuneration Report
ASA Vote	For

CEO rem. framework	Target* ($m)	% of Total	Max. Opportunity ($m)	% of Total
Fixed Remuneration	0.884	57.1%	0.884	57.1%
STI - Cash	0.332[1]	21.4%	0.332+[2]	21.4%
STI - Equity	0.111[1]	7.2%	0.111+[2]	7.2%
LTI	.222	14.3%	0.222	14.3%
Total	1.549	100%	1.549	100%

*The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.*

[1] The Annual Incentive is paid as cash, but 25% of the pre-tax amount received is used by recipients to acquire shares in AFI or related subsidiaries.

[2]Where stretch levels of performance are achieved above target, then higher amounts may be paid. To date, annual incentives paid to each Executive have never exceeded target.

The cost of the Remuneration package is not borne by AFI alone. A substantial proportion of the total remuneration cost is borne by related companies (Djerriwarrh Investments – DJW, Mirrabooka Investments – MIR and AMCIL Ltd – AMH). Typically, these 3 companies account for 30-40% of the total remuneration package.

Positives

- Managing Director's (MD's) actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package does not reasonably exceed the Godfrey Remuneration Group report benchmarks. AFI is well under the benchmarks reported for a company with a market cap of ~$10b. Its remuneration package is similar to Argo Investments (ARG), its most comparable peer.
- The quantum of Board fees does not reasonably exceed the Godfrey Remuneration Group report benchmarks and are well under similarly sized companies.
- Majority (80%) of STIs are based on quantifiable and disclosed performance metrics. These are assessed against benchmarks at 1,3,5 and 10 years with a focus on the performance of the investment portfolio.
- The STI is paid in cash, but 25% of the pre-tax amount is used by recipients to acquire shares in AFI or related companies. In prior years, 50% of the after-tax amount had this condition. Company representatives advised that both conditions resulted in a similar outcome. The holding lock on the shares has been extended from 2 to 4 years to better align with the long-term investment objectives of the company.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI hurdles are measured a minimum of four years or more after issue.

- Comparator groups are from similar industries and include key competitors and any relevant foreign companies. AFI is benchmarked against the S&P ASX 200 Accumulation Index (AXJOA).
- Share grants are satisfied by equity purchased on-market.
- No retention payment on any awards are subject only to continuing service.
- No termination payments exceed 12 months fixed pay.
- No full vesting in a takeover or "change of control" events.
- Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

Areas for Improvement

- At least 50% of CEO's pay is genuinely at risk, with STIs, if any, less than fixed remuneration. Only 41% of the MD's pay is considered at risk, however, the STI is assessed over 1,3,5 and 10 years rather than only 12-months.

- LTI hurdles are based on at least two hurdles, one of which is Total Shareholder Return (TSR), with no payment if absolute TSR is negative. The current LTI is based on 2 hurdles, however from 2020 onwards the LTI performance measures will be based on gross TSR only, with the total portfolio return hurdle being removed. TSR has subsequently been removed from the STI.

  Company representatives advised that the adjustments to the incentive schemes were primarily for reasons of simplification. It is considered that the LTI now has a focus on company performance and shareholder experience through the long-term measurement of TSR. The STI focus is now on the investment performance, whilst also being assessed on a long-term basis.

Conclusion on Remuneration

Historically the AFI remuneration package has been well aligned with the objectives sought by the ASA. The STI is well regarded by the ASA and exceeds expectations through its assessment over a 10-year timeframe. The LTI plan has moved away from the ASA's preferred structure with the removal of a second hurdle. However, the remaining TSR hurdle is aligned with the shareholder experience when considering that AFI is a Listed Investment Company whose purpose is to invest in other companies.

The total remuneration package does not appear to be excessive, being well below the Godfrey Benchmarks for similarly sized companies and comparable with peers with smaller market caps.

It is considered that the overall remuneration package remains sufficiently aligned with ASA guidelines and shareholder interests. Therefore, the ASA proposes to vote FOR the remuneration report at the AGM.

Item 3	Election of Director – Mr Craig Drummond
ASA Vote	For

Mr Drummond is the most recent appointment to the board having been appointed in July 2021. He has over 30 years' experience in the financial sector and was most recently the CEO of Medibank Private Ltd (MPL), retiring on 30 June 2021. He has a manageable workload, being a NED of Transurban Group (TCL) and President of the Geelong Football Club. His initial shareholdings are the equivalent of one year's board fees and the ASA proposes to support his election to the AFI board.

Item 4	Election of Director – Ms Julie Fahey
ASA Vote	For

Ms Fahey was appointed to the board in April 2021 after a 30-year career in the technology sector. Her appointment enabled the board to reach its goal of having at least 30% female representation, also in line with ASA guidelines.

Ms Fahey has a high workload, being a NED of ASX listed companies Seek Limited (SEK) and Iress Limited (IRE) in addition to non-listed Datacom Group Limited and State Government owned Cenitex. Additionally, she is a member of the Australian Red Cross Blood Service Board and the La Trobe University Council. The IRE board has recently recommended that shareholders accept a private equity takeover bid, subject to due diligence, so Ms Fahey may well cease that directorship in coming months.

Ms Fahey's presence on the board allows AFI to fill an identified skill gap in the technology sector and to achieve its own and ASA's gender diversity targets. The ASA considers that this should outweigh concerns regarding her ability to manage workload at this point in time. On balance, the ASA proposes to support her election.

Item 5	Re-election of Director – Mr Graeme R Liebelt
ASA Vote	For

Mr Liebelt has been on the board since 2012, having now served 3-terms. The ASA opposed his re-election at the 2018 AGM due to an excessive workload. At the time he was also Chair of ASX listed Amcor (AMC) and Dulux (DLX) and a NED of ANZ Bank. In the time since that meeting, Dulux has been taken over and is no longer listed on the ASX. As such, Mr Liebelt's workload now falls within ASA guidelines and the ASA will support his re-election for a further term.

Item 6	Adoption of new or amended constitution Renewal of Proportional Takeover Provisions in the Constitution
ASA Vote	For

The company seeks to renew for a further 3-years rules 79 and 80 in the company's constitution that were approved at the AGM in 2018.

The effect of the rules is that in the event of a partial takeover bid being made for AFI, this resolution requires the offer to be put to a meeting of shareholders so that they can vote on approving or not approving the offer before it can proceed.

The ASA has supported this resolution in the past, believing it to be a sensible precaution to have in the company constitution, and proposes to vote undirected proxies in favour of the resolution at this year's AGM

Monitor Shareholding

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