GLOBAL MASTERS FUND LIMITED

ABN 84 109 047 618

Chairman's Address – Annual General Meeting

Friday 9 November 2018

Ladies and Gentlemen, I am pleased to present the 13th Annual Chairman's Report of Global Masters Fund Limited for the 2017/18 financial year.

THE YEAR IN REVIEW:

The Company has enjoyed good growth over the past 12 months with the Net Tangible Asset (NTA) value per share (before tax on unrealised gains/losses) increasing by 11.5%, driven mainly by an increase in value of its major investment, Berkshire Hathaway, listed on the New York Stock Exchange. Berkshire Hathaway, which owns businesses ranging from insurers to railroads to retailers like Dairy Queen, recently reported net earnings of $12 billion in the April-through-June quarter. That profit was nearly triple last year's results and marked a strong rebound from a rare loss of $1.1 billion in the first three months of the year. On an adjusted basis, which removes certain items like investment results, Berkshire posted earnings of $6.9 billion, up more than 67 percent from $4.1 billion in last year's second quarter. Berkshire's top holding is Apple, a company that this past week became the first U.S. publicly traded stock to surpass a market value of $1 trillion on the strength of its iPhone success.

Other big stock holdings include Coca-Cola, Wells Fargo and American Express. Despite the company's board loosening rules last month that gives Buffett, the Chairman and CEO of Berkshire, the freedom to buy back shares of Berkshire stock whenever he feels it makes financial sense, Berkshire did not announce a stock repurchase plan. Berkshire represents approximately 60% of the portfolio and continues its upward trend.

This increase in NTA was also supported by a fall in the Australian dollar compared to the US currency. As mentioned in previous years, your Board does not hedge the currency.

During the year, your Company raised additional capital and invested the proceeds into the UK market. Since we are limited by close corporation rules in the UK from acquiring additional shares in Athelney Trust, a decision was taken to buy other shares directly on the London Stock Exchange, after the British pound declined following the BREXIT decision. UK investments comprise now 28.5% of the portfolio and while we are confident that the companies we have invested in will continue to grow their economic footprint, the, as yet, unquantified risk in this is the final impact of BREXIT, which remains uncertain. We are confident that commercial reality will result in some kind of trade deal with the EU and the likelihood of deals around the world. There is still an inherent risk for the London Financial markets. Your Board, as well as the management of Athelney Trust and EC Pohl & Co Pty Ltd will continually monitor these matters so as to be in a position to react if necessary.

The United States economy continues to show good growth, underpinned by tax cuts, strong corporate earnings and a strong job market.

The Chinese economy is growing at an annual pace in excess of 6.5% although authorities are focused on shoring up the financial system. The risks associated with a *Trade War* cannot be underestimated and could affect economic prospects around the world, including the USA. Hopefully these matters can be resolved by negotiations and commercial necessity.

The Australian economy is currently growing and surveys indicate that business conditions and the strength of business activity are good. There are also potential risks associated with low wages growth; many commentators including the Reserve Bank of Australia have raised these concerns. There are signs of an easing in consumer spending and confidence.

THE MARKET OUTLOOK

The main story for markets continues to be the re-pricing of future economic growth, with China leading emerging market equity performance significantly lower. The Chinese market has been worried by contracting liquidity (also a global phenomenon), and the escalating trade war rhetoric. China's currency, the RMB, has devalued leading to renewed fear of another run of funds from the mainland and a resultant popping of the debt bubble there. Having said that, the unprecedented growth in China over recent years still sees that economy to overtake the US economy as the largest by 2029 if not sooner.

Chinese shares have broken a four-year uptrend and the Global Emerging Market share index (of which China is a major part) has broken a two-year bull-market trend too. Other proxies for global growth such as copper, US government bonds and key cyclical indices such as the European auto-manufacturers are all pointing to genuine fears insofar as the impact of a trade war on growth. As the cracks begin to emerge in the various 'economic growth proxies' that I follow, so too are cracks emerging in the nearest asset class to equities, which is corporate debt.

European and US corporate debt spreads from high yield issues through to investment grade have all been pushing higher, indicating investors require higher promised returns to compensate for rising risks. As the closest asset class to equity, this move will continue to restrain the broad equity markets at best, or bring about outright downward pressure at worst.

At the time of writing (early November) we have seen heightened volatility in world equity markets, partly as a reaction to trade tensions and partly it may be seen as a natural market correction. We have also experienced weakness in the Australian Dollar. Not unusually, it is not possible to predict the extent of any correction or the timing of a recovery, it does appear that a number of investors are seeking save haven investments and also looking to secure investments that offer consistent yields. Your Board will continue to monitor the markets and the Global Masters Fund portfolios. Volatility is not necessarily to be avoided or feared but caution is warranted. The Australian domestic markets are likely to be skittish as we move into an electoral season with uncertain results, political uncertainty does cause volatility.

Global Masters was established so as to provide investors with offshore diversity and currency exposure. For this reason, your Board remains comfortable with the current investment strategy, but as always constantly under review.

THE BOARD

As always I thank my fellow Directors (Manny Pohl, Managing Director, Patrick Corrigan and Murray d'Almeida) and our Company Secretary (Mr Brian Jones) for their hard work and engagement throughout the year and I also thank you as Shareholders, for your support and loyalty for many years.

J L Addison

Jon Addison
Chairman
9 November 2018