# DIVERSIFIED UNITED INVESTMENT LIMITED

ABN 33 006 713 177

## CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 28TH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 171 COLLINS STREET, MELBOURNE ON WEDNESDAY 16TH OCTOBER 2019 AT 9.00 AM

Ladies and Gentlemen,

Welcome to the twenty-eighth Annual General Meeting of Diversified United Investment Limited.

The profit after income tax was $38.0 million in the year to 30 June 2019 an increase of 10.0% on the previous year but if special dividends and capital gains distributed from managed funds are excluded the result of $33.4 million is an increase of 2.5%. Leaving aside the special dividends and distributed capital gains, the year's result reflects a 4.2% increase in income from dividends and trust income, a 16% increase in income from international investments and a 11.5% fall in net interest expense. No options trading income was received.

The weighted average number of ordinary shares on issue for the year was 210 million as against 209 million in the previous year, an increase of 0.5%.

Excluding special dividends and capital gains received, earnings per share were 15.9 cents, compared to 15.5 cents for the previous year, an increase of 2.6%.

This year special dividends were received from Suncorp, Adelaide Brighton, Woolworths, BHP Group, Wesfarmers, South32 and Rio Tinto. Special dividends together with capital gains distributed from managed funds in which the Company invests totalled $4,653,000 after tax compared to $2,004,000 last year. Including the special dividends and capital gains received, earnings per share rose 9.7% to 18.1 cents.

A fully franked final dividend of 8.5 cents per share has been paid which, with the fully franked interim dividend of 7.0 cents, brought the total dividend for the year to 15.5 cents per share fully franked, a 3.3% increase on last year's total dividend of 15.0 cents per share.

The Company has maintained or increased its dividend paid per share every year since listing in 1991, notwithstanding, variable market conditions and several capital raisings. Over those last 29 years, to our knowledge only 2 companies that have been in the ASX All Ordinaries Index for all that time have matched that dividend performance. Listed investment companies are not included in the All Ordinaries Index and of the seven companies in the Australian Listed Investment Companies Association, only DUI and two others have matched this record of maintaining or increasing the dividend every year for 29 years.

Bank borrowing facilities were $115 million at the end of the financial year, drawn as to $95 million, unchanged from last year, amounting to around 8.5% of the market value of the investment portfolio, which is below the historical range of 10-12%.

Our annual interest expense on these borrowings was covered 11.2 times by profit before interest and tax. Cash on hand and short term receivables were $80 million at the end of the financial year, representing 7.2% of the portfolio.

Operating expenses, excluding borrowing costs, represented 0.12% of the average market value of the portfolio, the same as last year. Including the management fees of the international exchange traded funds and the managed funds in which the Company is invested, the see-through total expense ratio was slightly higher than last year at 0.16%.

Our Management Expense Ratio has been held steady for the last three years at 0.12% despite the cost of directors and officer's insurance nearly doubling last year from $46,000 to $91,000 and the ASIC Cost Levy introduced in 2018 increasing from $21,000 to $40,000.

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In May we appointed Mr. James Pollard as Assistant Company Secretary and this provides greater depth of operating capability for the company. Depending on the average market value of the portfolio this year, with these additional employment and office costs we expect our Management Expense Ratio to be around 0.13% this year which is still low compared to our competitors.

If we include the management fees involved in the international funds in which we are invested this adds 0.04% to our Management Expense Ratio. It gives you some idea of the low cost of our operations when we consider that the management fees of others handling our international investments is 25% of our see-through total Management Expense Ratio while those investments are only around 15% of our investment portfolio.

The pre-tax net tangible asset backing per share after provision for the final dividend rose from $4.39 at 30 June 2018 to $4.74 at 30 June 2019, a rise of 8.0%.

This was in a year in which the Australian S&P/ASX 200 Price Index rose 6.9%, while the MSCI All Companies World Index Ex Australia increased by 11.9% in Australian dollar terms. In local currencies, Standard & Poors 500 rose 8.2%, the UK Financial Times 100 Index fell 2.8%, and the Japan Nikkei – 225 Index fell 4.6%.

The performance of an investment in DUI based on the Net Asset Backing per share, and separately on the share price, assuming all dividends were reinvested, compared to the S&P/ASX 200 Accumulation Index over the one, three, five and ten year periods is as follows:

| To 30 June 2019 | DUI Net Asset Backing Accumulation % p.a. | DUI Share Price Accumulation % p.a. | S&P ASX 200 Accumulation Index % p.a. |
|---|---|---|---|
| 1 Year | 11.6 | 10.4 | 11.6 |
| 3 Years | 15.0 | 14.4 | 12.9 |
| 5 Years | 9.5 | 8.7 | 8.9 |
| 10 Years | 10.7 | 10.2 | 10.0 |

The 10 year compounded performance is 10.7% per annum, compared to the accumulation index of 10.0% per annum.

The Company’s net asset backing accumulation performance is after tax and expenses and the impact of the Company’s gearing, none of which is taken into account in the index. Furthermore the Company’s dividends are fully franked, while the level of franking of the whole market is around 75%.

If the benefit of franking credits for shareholders who can fully utilise them is included, the Company’s net asset accumulation return for the year was a rise of 13.3%, compared to the rise of 13.1% in the S&P/ASX 200 Franking Credit Adjusted Total Return Index.

The Company’s relative performance for the year was assisted by stock selection in the Resources, Infrastructure and Healthcare sectors, and was held back by its underweight positions in the Telecommunications and Gold sectors. In Australian dollar terms the international portfolio also contributed to outperformance.

The Annual Report provides details of the investments of the Company at 30 June 2019 and 30 June 2018, and the proportion of the market value of the investment portfolio held in each company.

At 30 June 2019 we were 77.7% invested in 35 Australian listed companies or trusts, 15.1% invested in international equities via seven exchange traded funds and three emerging markets managed funds, and 7.2% in cash and short term receivables.

The largest 25 equity investments comprised 81.4% of the portfolio and the details are set out on page 5 of the Annual Report.

At 30 June the largest industry sectors were Banks and other Financials 26%, Healthcare 13%, Infrastructure and Transport 13%, Mining 10%, Energy 5%, Retailers 5% and Property 4%. International equities represented 15%, other investments 2% and cash on hand was 7%.

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Turnover of the portfolio for the year was 10%.

Since the end of the financial year, we have increased our holding in Ramsay Health Care and the Northcape Capital Global Emerging Markets Fund, and added holdings in Link Administration Holdings and Napier Port Holdings.

At 30 September 2019 our borrowing facilities were $115 million, drawn as to $72.5 million while cash and short term investments were $33 million. The portfolio was invested in Banks and other Financials 27%, Healthcare 15%, Infrastructure and Transport 13%, Mining 9%, Retailers 6%, Energy 5%, Property 4%, and International Equities 16%, while smaller allocations to other sectors represented 2% of the portfolio, and cash 3%.

Our net asset backing per share based on investments at market values and after provision for tax on realised gains, but not net unrealised gains and losses, and after allowing for the final dividend was $4.74 at 30 June 2019 and $4.85 at 30 September 2019.

DUI is a long term investor and does not intend disposing of its total portfolio. However, under current accounting standards, the Company is required to provide for estimated tax that would arise on a theoretical disposal of the entire portfolio. After deducting this provision the net asset backing per share, after allowing for the final dividend, was $3.98 at 30 June 2019 and at 30 September 2019 was $4.07.

Outlook:

Last year in the Outlook section of the Chairman's Address we said, *"We are finding it difficult to find new investments with growth prospects among the established dividend paying companies in Australia. Over the last year we have been directing the cash available from sales or the drawdown of bank facilities into international funds. We will stay fully invested and envisage only modest changes in our investment portfolio."*

This is still our position today although we have made most of the desired international investments.

The major influence on the share market is the current low interest rates, which is in large part attributable to the central banks, but which also reflects the uncertainties in the world economic outlook, and many of the new growth industries being capital light.

Behind the uncertainties for the world outlook are unpredictable political leadership; the question of democracy and the current inequality of income distribution within countries; a turning away from freer trade towards protection as evidenced by the US / China trade dispute; the sluggishness of the EU economies; and political tensions in North Korea, the Middle East, Hong Kong and in the UK with Brexit.

We see low rates of interest continuing and hence historical high price earnings ratios in the market despite a subdued growth outlook. This is an unfamiliar investment environment for us.
We have had a modest amount of gearing, around 10%, for a number of years. In the latest year we have reduced our net gearing to 1%, with borrowings of $95 million and money on deposit of $80 million.

We are fully invested and comfortable with the composition of our portfolio and have funds available through borrowings should the share market experience a retreat.

Charles Goode
Chairman