Diversified United Investment Limited

ABN 33 006 713 177

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE TWENTY THIRD ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON TUESDAY 14 OCTOBER 2014 AT 9.00 AM

Ladies and Gentlemen,

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

The last year again saw a strong rise in our net asset value per share, an increase in our profit, and an increase in the dividend paid out to shareholders.

The net asset backing per share plus dividends paid rose 20%, which is well in advance of the the rise in the S&P ASX 300 Accumulation Index of 17%.

The profit after income tax was $26.4 million in the period to 30 June 2014 an increase of 11.8% or an increase of 12.6% if special dividends are excluded. The year's result reflects a 12% increase in income from dividends and trust income; an 8% decrease in interest and options premium income; and a 12% decrease in net interest paid.

The weighted average number of ordinary shares on issue for the year was 170 million as against 168 million in the previous year, an increase of 1.1%.

The earnings per share were 15.5 cents, compared to 14.0 cents for the previous year. This year special dividends of $841,000 were received from Westpac, The Trust Company, Adelaide Brighton, Westfield Group and Westfield Retail Trust and a non-cash special dividend was received from the Brambles/Recall demerger. Last year special dividends of $922,000 were received. Excluding special dividends, earnings per share were 15.0 cents, compared to 13.5 cents for the previous year, an increase of 11%.

Bank borrowings were $65 million at the end of the financial year, unchanged from last year, amounting to around 9% of the investment portfolio at market values, slightly below the historical range of 10-12%.

At this level of borrowings our annual interest expense was covered 9 times by profit before interest and tax. Cash on hand at the end of the financial year was $13M.

Since the end of the financial year borrowings have been increased by $10M to $75M, or around 10.6% of the investment portfolio at market values as at 30 September.

Operating expenses, excluding borrowing costs, represented 0.15% of the average market value of the portfolio compared to 0.17% last year.

A fully franked final dividend of 7.5 cents per share has been paid which, with the fully franked interim dividend of 6.5 cents, brought the total dividend for the year to 14 cents per share fully franked, an increase of 3.7% on last year.

The pre tax net tangible asset backing per share after provision for the final dividend rose from $3.21 at 30 June 2013 to $3.72 at 30 June, 2014, an increase of 16%.

This increase was in a year in which the Australian S&P/ASX 200 Price Index rose 12.4%, while in the USA the Standard & Poors 500 rose 22.0%, the UK Financial Times 100 Index rose 8.5%, and the Japan Nikkei – 225 Index rose 10.9%.

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 300 Accumulation Index over the one, three, five and ten year periods is as follows:

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To 30 June 2013	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	20.1	25.1	17.3
3 Years	11.8	15.2	10.0
5 Years	11.9	11.7	11.0
10 Years	10.4	11.4	8.9

This year the Company outperformed the index by 2.8% and the 10 year compounded performance is now 10.4% per annum, ahead of the accumulation index of 8.9% per annum and amongst the leaders of our peer group of listed investment companies.

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.

The Annual Report provides details of the investments of the Company at 30 June 2014 and 30 June 2013, and the proportion of the market value of the investment portfolio held in each company.

For the first 11 years following its listing in 1991 the Company held an allocation in international equities. In May the Company announced that the Board considered it an appropriate time to re-establish an allocation to international equities of up to 5% of the portfolio.

In making allocations to international equities the Board will amongst other matters, take into consideration:

- The relative value of, and the outlook for, the Australian and international share markets;
- The value of the Australian dollar;
- The fees charged by international fund managers and Exchange Traded Funds; and
- The ability of the Company to maintain and frank its dividends paid.

The Company made an initial investment of approximately $5 million in each of Vanguard All-World Ex-US Shares Index ETF (VEU) and Vanguard US Total Markets Shares Index ETF (VTS), and since 30 June has increased each of these investments such that at 30 September together they represented 3% of the portfolio.

At 30 June 2014 we were 96.6% invested in 43 Australian listed companies or trusts, 1.5% in international equities and 1.9% in cash and short term receivables.

The largest 25 equity investments comprised 86.5% of the portfolio and the details are set out on page four of the Annual Report.

The largest industry sectors were Financials 44%; Materials 15%, Energy 11%; Industrials 9%, Healthcare 7% and Consumer Staples 6%.

Since the end of the financial year, we have reduced our holding in QBE Insurance, and sold our holdings in Australand and Westfield Corporation. We have also disposed of our small holding in Healthscope which was acquired in the initial float in July. We have added to our holdings in Asciano, Origin Energy, Vanguard US Total Market ETF, Vanguard All-World Ex-US ETF, Sonic Healthcare and Computershare.

At 30 September 2014 our borrowings were $75M while cash and short term investments were $8.4M. The portfolio was invested in the Financials as to 44%, Materials 13%, Energy 11%, Industrials 10%, Healthcare 8% and Consumer Staples 6%, while smaller allocations to other sectors represented 7% of the portfolio, and cash 1%.

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 $3.72 at 30 June 2014 and $3.70 at 30 September, 2014

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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 $3.20 at 30 June 2014 and at 30 September 2014 was $3.20.

Outlook:

We consider our portfolio is well valued by the market. We are happy to hold these shares and receive the dividends but we can see only modest further appreciation in the current year.

We would like to increase our exposure to world equity markets and in particular world technology companies and a broader range of companies in the health sector.

It is not attractive to us to sell our existing shareholdings and incur considerable capital gains taxes. We have therefore decided to modestly rebalance our portfolio by raising additional capital and making new investments.

We are raising additional funds by way of a 1:5 renounceable share issue to shareholders registered on 13 October 2014. The issue price of the new shares is $3.00 per share payable by 31 October 2014. The new shares will not receive the interim dividend payable in March 2015 but thereafter will rank for dividends equally with the existing shares. It will take a little time to invest the proceeds of the issue and receive dividends from the new investments. Having the new shares rank for dividends after the March 2015 interim dividend allows your Board to expect to maintain the current interim dividend rate for existing shares of 6.5 cents per share in March 2015 and expects, in the absence of unforeseen circumstances, to maintain the current annual dividend rate of 14 cents per share on the increased capital.

When the funds are received from the issue of new shares we are likely to move our international investments target allocation from 5% towards 10% of the portfolio. This will enable the Company to increase its exposure to world equity markets and, in particular, world technology companies and a broader range of companies in the health sector, including the major pharmaceutical companies. At 30 September 2014 international investments represented approximately 3% of the portfolio.

To the extent we invest internationally we are likely to invest in securities with lower dividend yields than from the Australian market and our dividends to shareholders are therefore more likely to be steady rather than increasing over the next few years. We will however introduce more diversification into the portfolio and the potential for greater capital appreciation.

We are cautious on the current share market in view of the current levels and volatility of world share markets, the prospect of rising interest rates next year, an aging world population, government budgets that are in deficit and need balancing, and world tensions especially in the Middle East.

We are however comforted on a longer term view by the high levels of liquidity throughout the world, the attractive dividend yields relative to interest rates, and the longer term consumer spending that will come from the increased middle class in Asia.

James Bond orders his martinis to be shaken but not stirred. In respect of the share market we are stirred but not shaken.

Charles Goode
Chairman