DIVERSIFIED UNITED INVESTMENT LIMITED

ABN 33 006 713 177

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE TWENTY FOURTH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON THURSDAY 15 OCTOBER 2015 AT 9.00 AM

Ladies and Gentlemen,

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

In November last year the Company raised $102.6 million in a one for five renounceable rights issue at $3.00 share. After allowing for the increased capital, earnings per share for the 2015 financial year rose 3.4%, excluding special dividends received, and the final dividend paid was maintained on the increased capital.

The profit after income tax was $33.7 million in the period to 30 June 2015 an increase of 27.7% or an increase of 16.9% if special dividends are excluded. The year's result reflects a 18% increase in income from dividends and trust income, steady options premium income, and a 5% increase in net interest paid. This year we also received foreign income on our international investments and a net foreign exchange gain of $1.1 million after tax.

The weighted average number of ordinary shares on issue for the year, having adjusted for the bonus element in the rights issue was 198 million as against 175 million in the previous year, an increase of 13.2%.

After adjusting for the bonus element in the November 2014 one for five renounceable rights issue, the earnings per share were 17.0 cents, compared to 15.1 cents for the previous year. This year special dividends of $3,831,000 were received from Wesfarmers, Oil Search and a non- cash special dividend of $3,600,000 from the BHP Billiton/South32 demerger. Last year special dividends of $841,000 were received. Excluding special dividends, adjusted earnings per share were 15.1 cents, compared to 14.6 cents for the previous year, an increase of 3.4%.

Bank borrowings were $85 million at the end of the financial year, up from $65 million last year, amounting to around 10% of the investment portfolio at market values, in line with the historical range of 10-12%.

At this level of borrowings our annual interest expense was covered 9.7 times by profit before interest and tax. Cash on hand at the end of the financial year was $27M.

Operating expenses, excluding borrowing costs, represented 0.13% of the average market value of the portfolio compared to 0.15% 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, unchanged from last year, but with the final dividend paid on the increased capital.

The Company has maintained or increased its dividend paid per share every year since listing in 1991, notwithstanding several capital raisings.

The pre tax net tangible asset backing per share after provision for the final dividend, and after adjusting for the bonus element in the rights issue, fell marginally from $3.62 at 30 June 2014 to $3.61 at 30 June, 2015.

This was in a year in which the Australian S&P/ASX 200 Price Index rose 1.2%, while in the USA the Dow Jones rose 4.7%, Standard & Poors 500 rose 5.2%, the UK Financial Times 100 Index fell 3.3%, and the Japan Nikkei – 225 Index rose 33.5%.

Continued Over

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:

To 30 June 2015	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	3.6	4.3	5.6
3 Years	16.2	20.2	14.7
5 Years	9.7	9.5	9.5
10 Years	7.8	8.6	6.9

This year the Company underperformed the index by 2% due to our over index weighting in leading mining and energy companies. The 10 year compounded performance is 7.8% per annum, ahead of the accumulation index of 6.9% 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.

The Annual Report provides details of the investments of the Company at 30 June 2015 and 30 June 2014, and the proportion of the market value of the investment portfolio held in each company.

At 30 June 2015 we were 87% invested in 44 Australian listed companies or trusts, 10% in international equities and 3% in cash and short term receivables.

The largest 25 equity investments comprised 80.6% of the portfolio and the details are set out on page five of the Annual Report.

At 30 June the largest industry sectors were Financials and Insurance 39%; Healthcare 12%, Mining and Mining Services 11%, Energy 8%; Infrastructure and Transport 8% and International Equities 10%.

Turnover of the portfolio remains low. The average turnover of the portfolio (sales as a percentage of portfolio value) was 8% per annum over the last 5 years which means that on average we hold an investment for twelve years.

Since the end of the financial year, we have reduced our holdings in Asciano, Gowings, Medibank Private and Mystate. We have taken up our entitlements in the ANZ, Commonwealth Bank, Origin Energy and Westpac rights issues, and added to our holdings in Aurizon, GDI Property Group, Stockland Group, Suncorp and Sydney Airports. We have also introduced to our portfolio investments in Insurance Australia Group and Macquarie Atlas Group.

At 30 September 2015 our borrowings were $85M while cash and short term investments were $8.5M. The portfolio was invested in the Financials and Insurance 39%; Healthcare 13%, Mining and Mining Services 10%, Energy 7%; Infrastructure and Transport 10% and International Equities 10%, while smaller allocations to other sectors represented 10% 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 $3.61 at 30 June 2015 and $3.40 at 30 September, 2015

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 $3.17 at 30 June 2015 and at 30 September 2015 was $3.04.

Continued Over

During the year we were sorry that Pierre Prentice decided to retire from the Board to allow time to pursue other interests including travel. We benefitted from his analytical research approach to investments.

We are pleased that Andrew Larke accepted our invitation to join the Board. Andrew was Global Head of Strategy, Planning and Chemicals of Orica Ltd., then in March this year he became Chief Executive Officer of IXOM, formerly the chemicals division of Orica, until 1 October and is now Chairman of IXOM Andrew is a keen follower of investment markets.

<u>Outlook</u>:

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

As it happened the market ended the year around the level it started. Our portfolio suffered from its historical overweight position in leading mining and mining service companies and in energy, but benefitted from investing part of the proceeds of last year’s one for five issue at $3.00 per share in international index funds.

The All Ordinaries Price Index has fallen by 7.2% and the S&P/ASX 200 Price Index has fallen by 8% from 1 July to 30 September 2015 and we consider that the balance of probability is for this loss to be recovered by the end of this financial year. We see USA continuing to have reasonable economic growth. The Australian economy has probably seen most of the fall expected in mineral and energy prices although recovery in these prices may take several years. We will, over the year, see some benefits from the lower Australian dollar.

It is a complex investment market. The weighting in the ASX 200 of the Energy sector has fallen from 8.4% at 30 June 2011 to 4.3% at 30 September 2015, and over the same period the Resources sector has fallen from 27.4% to 13.6%; the Financials ex Property Trusts has risen from 29.2% to 37.3%, Healthcare 3.5% to 7.1%, and Telecommunications 3.5% to 6.1%. We have seen our Australian banks lift their payout ratios while regulatory authorities are requiring increased capital. We have seen our two leading mining companies commit to steady or rising dividends in an industry that is obviously cyclical and one could argue investment opportunities might be available at times of low mineral prices and low profits when weaker companies are under pressure. It seems the current “corporate wisdom” is likely to provide higher dividend income to our portfolio and less growth than would traditionally be the situation. Our challenge will be to find growth companies in which to invest.

Charles Goode
Chairman