DIVERSIFIED UNITED INVESTMENT LIMITED

ABN 33 006 713 177

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE TWENTY SIXTH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 171 COLLINS STREET, MELBOURNE ON MONDAY 16TH OCTOBER 2017 AT 11.00 AM

Ladies and Gentlemen,

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

The profit after income tax was $32.8 million in the year to 30 June 2017 an increase of 7.5% on the previous year but if special dividends are excluded the result of $31.0 million is an increase of 2.4%. The year's result reflects a 2.6% increase in income from dividends and trust income, a 7% increase in income from international investments, a more than doubling in options trading income and a 1.2% rise in net interest paid.

The weighted average number of ordinary shares on issue for the year was 208 million as against 207 million in the previous year, an increase of 0.6%.

Excluding special dividends received, earnings per share were 14.9 cents, compared to 14.6 cents for the previous year, an increase of 2.1%.

This year special dividends totalling $1,820,000 were received from Asciano and Adelaide Brighton. Last year special dividends of $246,000 were received. Including the special dividends received, earnings per share rose 7.5% to 15.8 cents.

A fully franked final dividend of 8.0 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 14.5 cents per share fully franked, a 3.6% increase on last year's total dividend of 14 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.

Bank borrowings were $95 million at the end of the financial year, unchanged from last year, amounting to around 10% of the investment portfolio at market values, and in line with the historical range of 10-12%.

Our annual interest expense on these borrowings was covered 9.2 times by profit before interest and tax. Cash on hand at the end of the financial year was $30 million, representing around 3% of the portfolio.

Operating expenses, excluding borrowing costs, represented 0.12% of the average market value of the portfolio, compared to 0.13% last year. Including the management fees of the international exchange traded funds and small cap managed funds in which the Company is invested, the expense ratio was 0.15% compared to 0.14% last year.

The pre tax net tangible asset backing per share after provision for the final dividend rose from $3.46 at 30 June 2016 to $3.92 at 30 June, 2017, a rise of 13.3%.

This was in a year in which the Australian S&P/ASX 200 Price Index rose 9.3%, while the MSCI All Companies World Index increased by 12.4% in Australian dollar terms. In local currencies, Standard & Poors 500 rose 17.9%, the UK Financial Times 100 Index rose 16.9%, and the Japan Nikkei – 225 Index rose 30.6%.

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 2017	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	17.6	18.5	14.1
3 Years	6.8	6.3	6.6
5 Years	13.0	14.9	11.8
10 Years	4.1	4.0	3.6

Continued over

The 10 year compounded performance is 4.1% per annum, compared to the accumulation index of 3.6% 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 70-75%.

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 19.5%, compared to the rise of 15.9% 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, Financials and Healthcare sectors, and by its underweight positions in the Telecommunications and Real Estate sectors which fell 22% and 6% respectively. In Australian dollar terms the international portfolio also contributed modestly to outperformance.

The Annual Report provides details of the investments of the Company at 30 June 2017 and 30 June 2016, and the proportion of the market value of the investment portfolio held in each company.

In June this year the board increased the target asset allocation range for international equities from around 10% to 10-15% of the portfolio and an investment was made in the Vanguard FTSE Developed Europe ex UK exchange traded fund.

At 30 June 2017 we were 83.4% invested in 42 Australian listed companies or trusts, 1.9% in Small Cap managed funds, 11.5% invested in international equities via exchange traded funds and 3.2% in cash and short term receivables.

The largest 25 equity investments comprised 69% 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 36%, Healthcare 11%, Infrastructure and Transport 10%, Mining 7%, Energy 6% and Property 6%. International equities represented 11.5%, the small cap managed funds 2%, other investments 7.5% and cash on hand was 3%.

Turnover of the portfolio this year was slightly higher than usual at 10% as it included the Asciano takeover and we undertook some portfolio repositioning.

Since the end of the financial year, we have disposed of our holding in GDI Property Group, added a holding in Link Administration Holdings and added to our holdings in Macquarie Atlas Roads and Australian Unity Office Property Trust through their respective rights issue.

At 30 September 2017 our borrowings were $95M while cash and short term investments were $22M. The portfolio was invested in the Financials and Insurance 36%, Healthcare 11%, Infrastructure and Transport 10%, Mining 8%, Energy 6%, Property 6%, Small Cap Managed Funds 2% and International Equities 12%, while smaller allocations to other sectors represented 7% of the portfolio, and cash 2%.

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 $3.92 at 30 June 2017 and $3.95 at 30 September, 2017.

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 $3.39 at 30 June 2017 and at 30 September 2017 was $3.43.

Federal Government Levy on Selected Banks

Your Board is very concerned about the unwarranted and discriminatory levy on the four major banks and Macquarie Bank. Your Company has 26% of the portfolio invested in the four major banks, around index weighting.

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To impose a levy on selected companies, in a selected sector, is discriminatory, unfair and a poor policy approach. The levy is effectively a tax on all bank customers and shareholders, including most Australians who are invested in the banks, usually through their superannuation funds. The banks already pay billions of dollars in income tax to the federal Government each year, and pay 70-80% of their after tax profits to shareholders. This selective levy runs counter to the Government's policy of creating unquestionably strong banks and a safe and reliable financial sector.

Shareholders should take the opportunity to write to their local Federal Member of Parliament calling for a review of the "Major Bank Levy", or at the very least a sunset date coinciding with the return of the Commonwealth budget to surplus.

Outlook:

I noted earlier how well stock markets around the world performed in 2016-17.

With many indices, notably in the US and in certain European markets, at historical highs, and stocks trading on elevated price earnings multiples by historical standards, it is difficult to see a repeat of that performance in the coming year.

We have a reasonably cautious outlook as there does not appear to be much more good news in store for either earnings growth or valuation multiples.

While there are some signs that the Australian economy will improve through 2018, this is unlikely to benefit the earnings of the major ASX sectors, financials (35%) and natural resources (12.5%), which have a muted earnings growth outlook due to regulatory constraints and normalising commodity prices respectively.

The earnings per share growth outlook for the ASX 200 for the next two years is mid-single digits, which makes the forward PE multiple of about 16 times for the ASX 200, and 23 times for the market excluding financials, materials and energy, look to be demanding.

Internationally, the earnings growth outlook is brighter, reflecting improved global economic growth dynamics, with forecasts for the earnings of the MSCI All Companies World Index of a little over 10% p.a. for the next two years, which better supports the forward earnings multiple of 16.4 times.

The proposed Trump corporate tax reforms in the U.S. could provide a material one-off boost to earnings levels of U.S. corporations, and further boost the U.S. stock market, although the current forward PE multiple of 17.8 times may well factor some of this in.

On the issue of valuations, we are all conscious that asset prices around the world have benefitted enormously from the policy of quantitative easing provided by the major central banks which have suppressed interest rates to historic lows.

The US Federal Reserve and other major central banks have signalled their intent to retreat from this policy of monetary easing and the interest rate tightening cycle has commenced.

It is unclear what impact the rising interest rate cycle will have on stock markets. We are optimistic current valuation multiples can be sustained unless interest rates rise faster or further than expected.

In our view, the biggest risk to markets are geopolitical, with the current tensions concerning North Korea a potential flashpoint.

In light of this outlook, our strategy is to remain fully invested in equities, with a particular focus on stock selection. Our portfolio of Australian stocks is oriented towards those companies with mature, reliable business models.

Acknowledging the challenge of muted earnings growth in the ASX 200, we have continued to expand our portfolio allocation to international stocks via ETFs and have introduced a modest Australian small cap sector exposure via managed funds.

In the short to medium term we expect our investment returns to be predominantly provided by dividend income rather than share price appreciation.

Charles Goode
Chairman