

8 October 2020

The Manager
ASX Market Announcements
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**Djerriwarrh Investments Limited
2020 Annual General Meeting – Chairman’s Address and Presentation**

Dear Sir / Madam

The following Chairman’s address and presentation will be delivered to shareholders at the Company’s Annual General Meeting to be held today.

Yours faithfully



Matthew Rowe
Company Secretary

Authorised for release by the Company Secretary

Chairman's Address - Introductory Remarks

We were disappointed in the 2020 outcome but , as your will hear in our later presentation , conditions were unusually difficult to run option written strategies in. The sharp rise in the market in the first seven months was concentrated amongst our best growth stocks and also newer technology stocks which we do not hold as they have not matured to the stage of producing earnings and dividends in many cases. The subsequent fall was one of the fastest on record – not far behind the 1987 Market Crash. The speed of the reversal after that was surprising given the impact of the pandemic on both economies and societies worldwide. Unfortunately a number of our high quality stocks with utility style income streams such as airports and toll roads were particularly adversely affected and as a consequence did not provide the defensive qualities they would normally be expected to show. We have made some adjustments to our portfolio which you will hear about from our investment team which we believe will put our portfolio in a stronger position . Its early days but our September quarter performance has been more encouraging.

Our clear objective has been , and remains , to deliver to our shareholders an enhanced dividend yield relative to the market . While our latest dividend payout may not feel like that , our largest source of income – dividends – was materially affected in the June half by dividend cuts and deferrals , as was the ASX 200 Index. In fact the 5.25c dividend represented an annualized yield grossed up for franking credits of 5.3% on the asset backing for the period. In comparison the yield on the ASX200 Index which used to be approximately 4% plus with 70% franking is now estimated to be 2.9% or 3.8% grossed up.

In each of the three 6 monthly periods to December 2019 our Net operating Profit per share had ranged between 8.8c and 7.7c . As a consequence our interim dividend was 8.25c being a small excess over our Net Operating Profit of 7.7c per share. The effect of dividend cuts reduced our half yearly earnings to 4.9c in the June half . We distributed 5.25c , again being all of the profit plus a small amount of capital gains. This is indicative our strategy regarding dividends going forward , market conditions permitting .

As mentioned we are unable at this time to forecast outcomes in the current year . The 2019/20 year consisted of one reasonable half followed by a significant reduction in the June half. We expect the two halves in 2020/21 to be closer to each other but will continue to reflect the same pressures as seen in the June half of 2020.



Annual General Meeting 2020 Presentation

Presentation Agenda

- Objectives (Mark Freeman)
- Financial Year in Summary (Andrew Porter)
- The Portfolio (Brett McNeill)
- Outlook (Mark Freeman)

Disclaimer

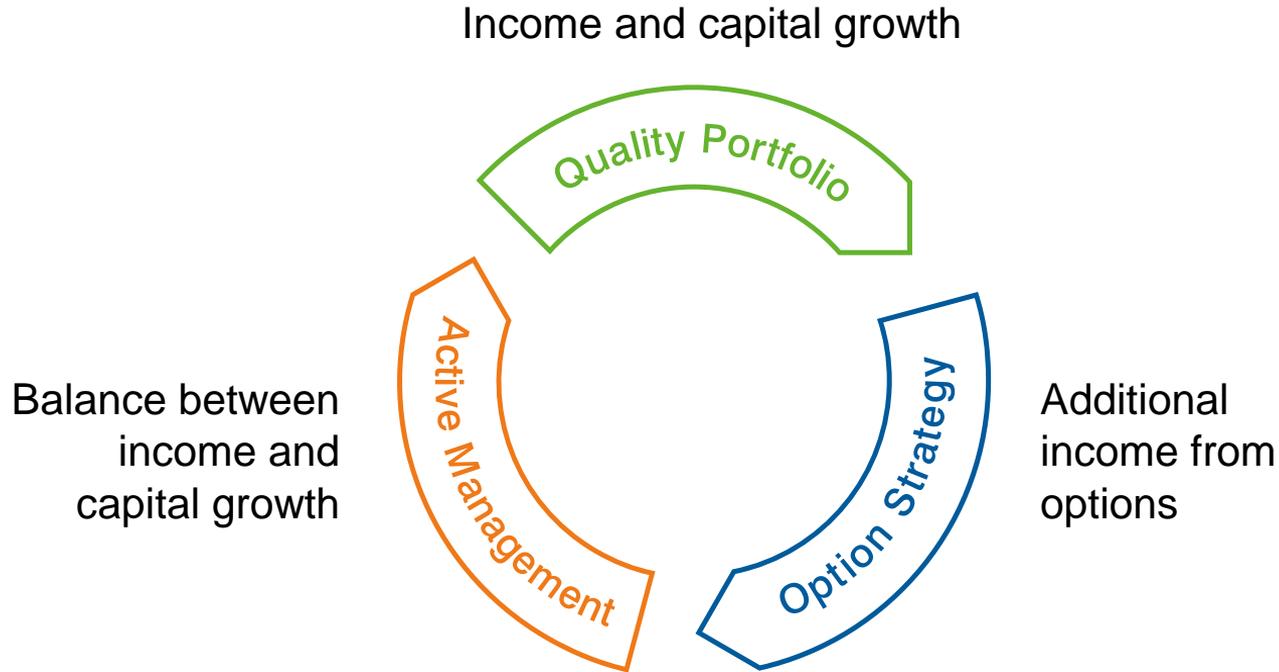
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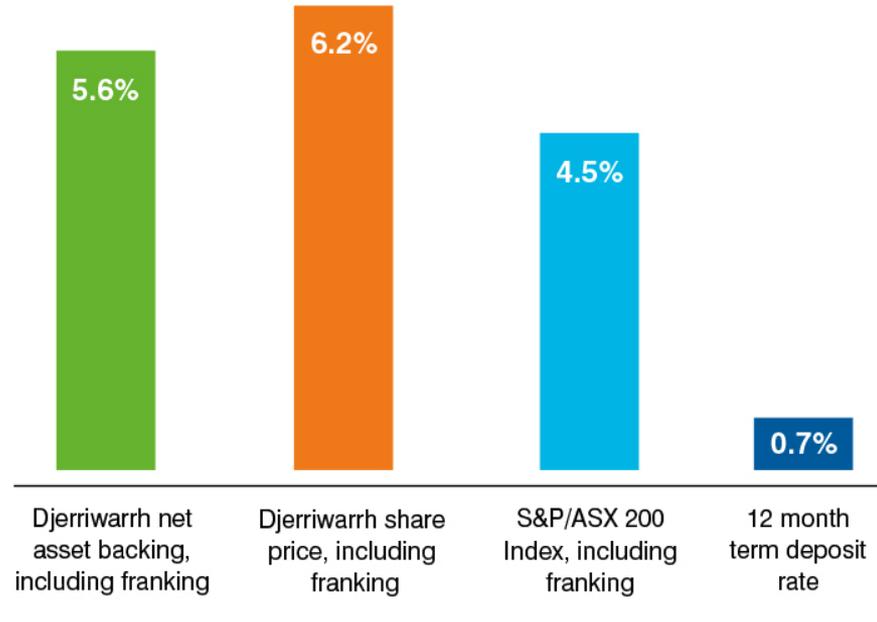


Objectives

Djerriwarrh looks to construct a portfolio that provides an enhanced fully franked dividend as well as some capital growth over time

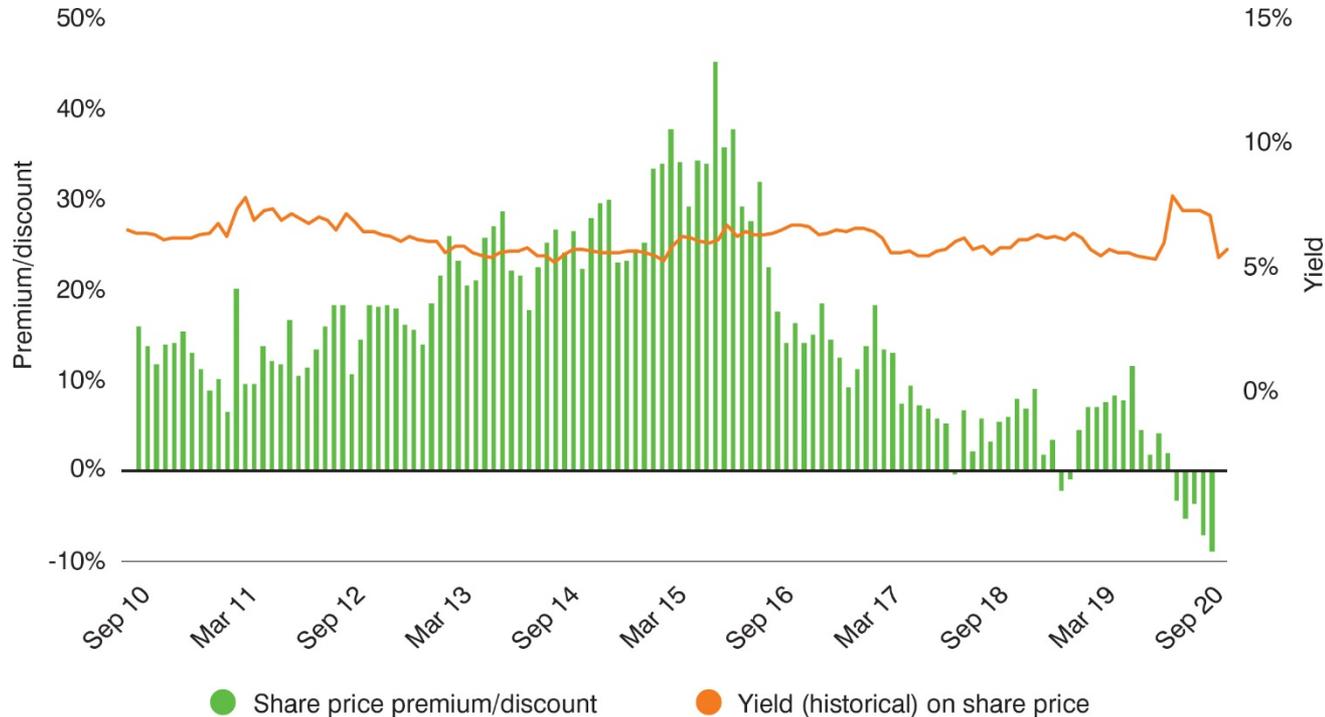


The outcome of this approach is a higher fully franked yield than the market – as at 30 September 2020



Assumes an investor can take full advantage of the franking credits. S&P/ASX 200 Index is the historic yield and 70 per cent franked. Given the uncertain economic climate, the figures for Djerriwarrh are based on an annualised final dividend of 5.25 cents per share fully franked and the S&P/ASX 200 is based on forecast yield for next 12 months.

The share price to net asset backing appears to trade on the basis of yield or expected yield



Note yield excludes benefit of franking

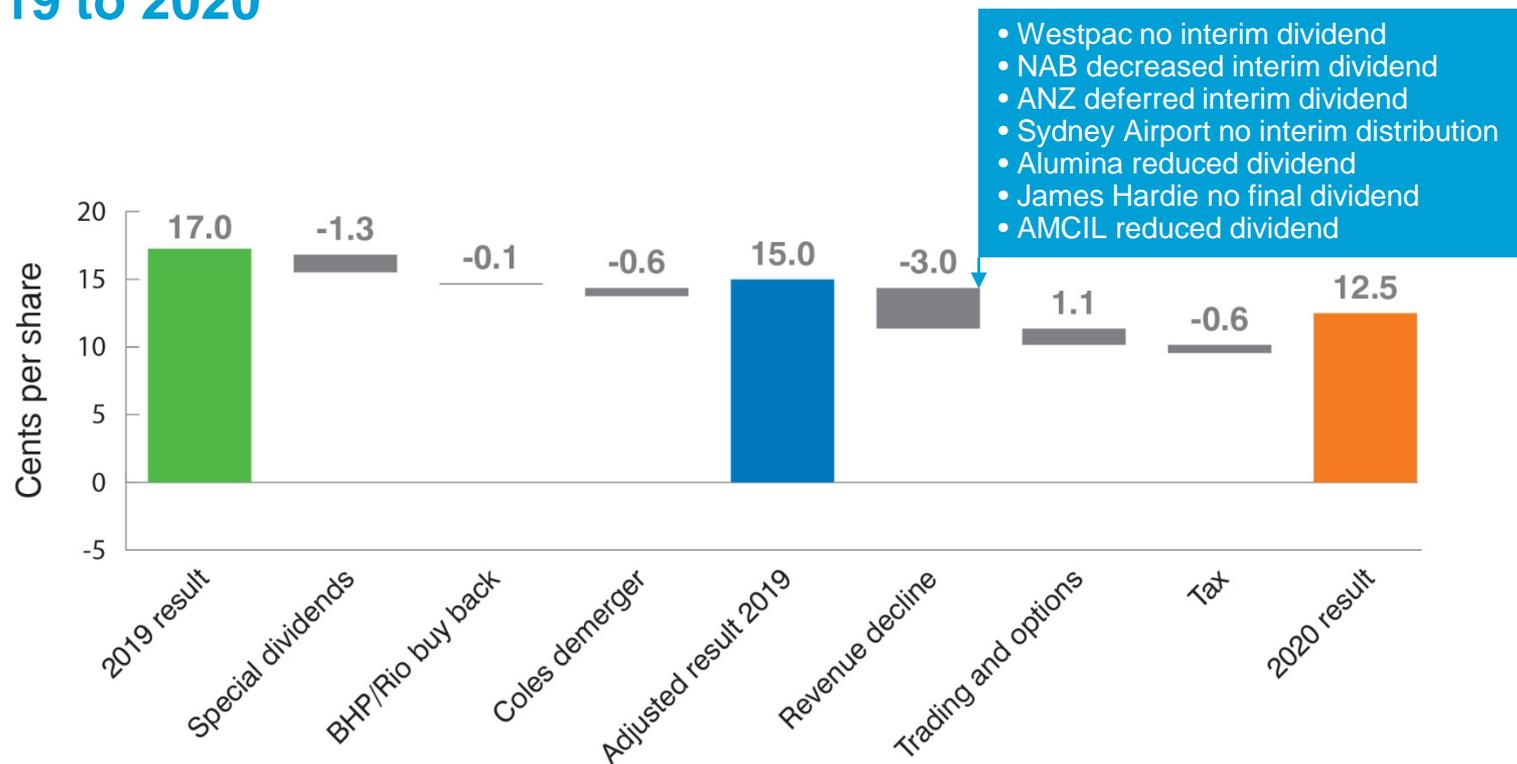
Financial Year in Summary



Financial year in summary

	2020				2020		
Profit for the Year	\$32.9m		Down 4.1% from 2019	Portfolio Dividend Yield	7.4% <small>Including franking*</small>		S&P/ASX 200 Index Yield 5.8% (grossed up for franking credits)
Net Operating Result	\$28.1m		Down 25.5% from 2019	Management Expense Ratio	0.45%		0.43% in 2019
Fully Franked Dividend	5.25¢ <small>Final</small>	14¢ <small>Total</small>	20 cents total in 2019	Total Portfolio Return	-11.5% <small>Including franking*</small>		S&P/ASX 200 Accumulation Index including franking* -6.6%

Net operating profit per share – changes from full year result in 2019 to 2020



The level of dividend each year is determined by taking into consideration

- Dividend income received from investments.
- Income generated from option strategies.
- Prudent distribution of capital gains/reserves where appropriate.

To provide an enhanced level of fully franked income that is higher than is available from the S&P/ASX 200 Index.

A close-up photograph of a person's hands holding a smartphone. The person is using their right hand to hold the phone while their left hand is positioned near the bottom edge. The phone is held over a dark, polished wooden surface, likely a table. The background is softly blurred, showing what appears to be an indoor setting with warm lighting. A blue rectangular overlay is positioned on the left side of the image, containing the text 'The Portfolio' in white.

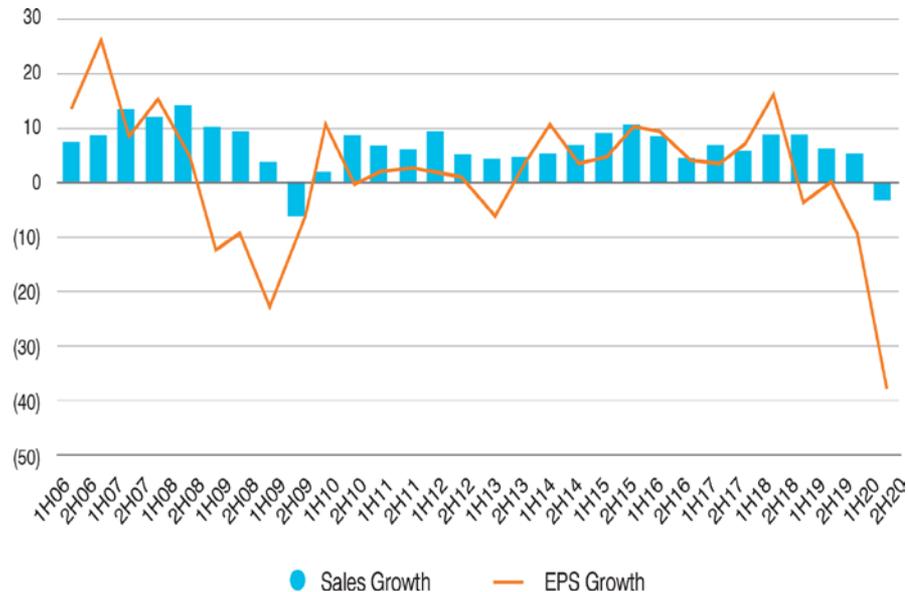
The Portfolio

COVID-19 severely impacted the market – S&P/ASX 200 Price Index



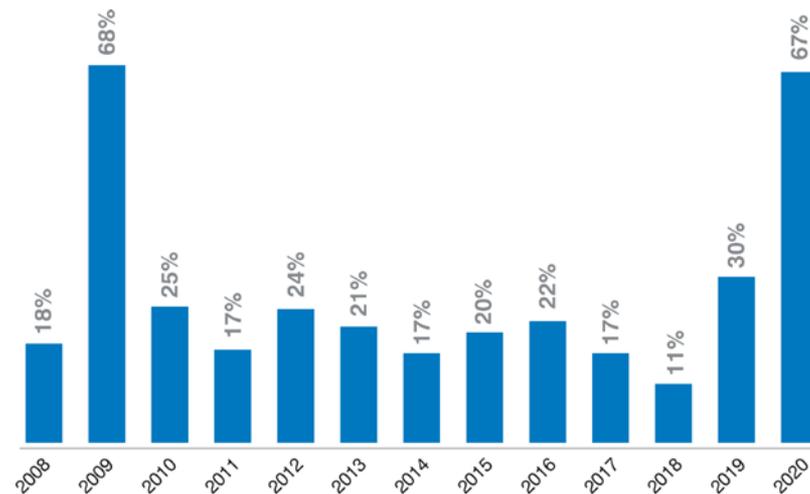
COVID-19 severely impacted the market – earnings and dividends

EPS growth fell 38% for the average stock, the weakest since the GFC (-20%)



Source: Goldman Sachs Global Investment Research, FactSet

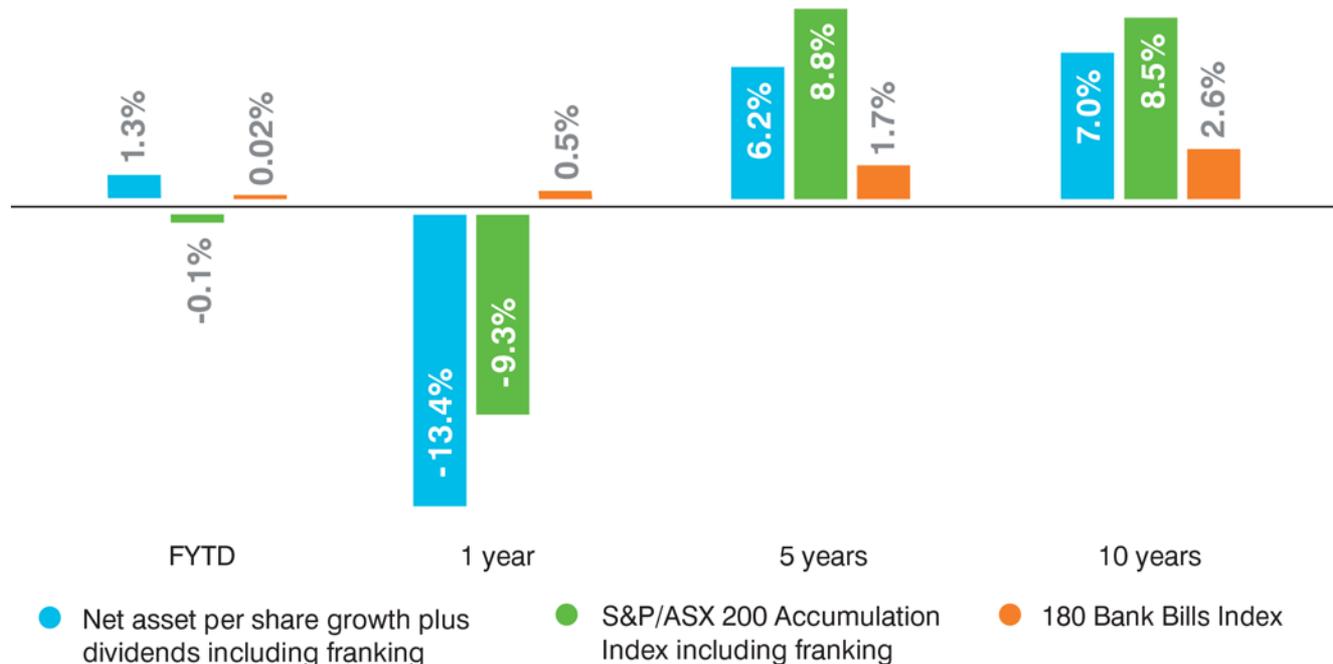
ASX Percent of cut or suspended dividend (stocks covered by Macquarie Research)



Source: Macquarie Research, September 2020

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Whilst it was a difficult year the positioning of the portfolio is starting to produce better results – returns to 30 September 2020*



* Assumes an investor can take full advantage of the franking credits. Past performance is not indicative of future performance.

Investment process – portfolio construction

Stock Selection



- Focus on high quality companies that can grow their dividend over the long term.
- Buy these companies at attractive valuations and own them for the long term.
- Avoid yield traps.

Options



- Sensible call coverage levels based on view of quality, valuation.
- Cost base and income requirements.
- Low coverage on highest quality and growth stocks.
- Selective use of put options.

Gearing



- 10 per cent gearing through the cycle to capture extra income.
- Selectively use tactical tilts based on market views – recognising that market timing is very difficult.

Risk Management



- Diversified portfolio of quality companies.
- Daily management of option positions.
- Do not take large market bets – cash and options.

Stock selection

Stock selection is a function of our investment framework:

- Identify quality companies through our **Quality Ranking**.
- Understand a company's ability to grow.
- Buy when they represent long term value.
- Own with a meaningful portfolio weighting.
- Retain core holdings in quality companies offering a stable to growing dividend.

What we look for in quality companies

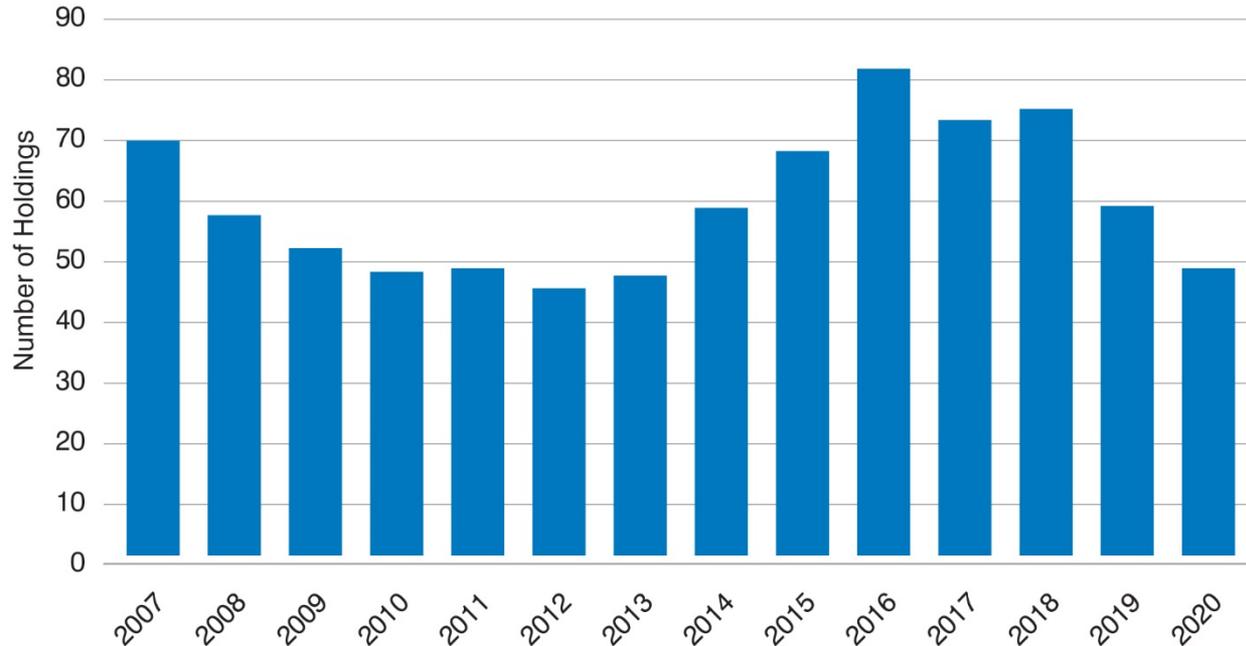
Sustainable competitive advantage
– unique assets producing strong
returns on capital

Strong management team
and board

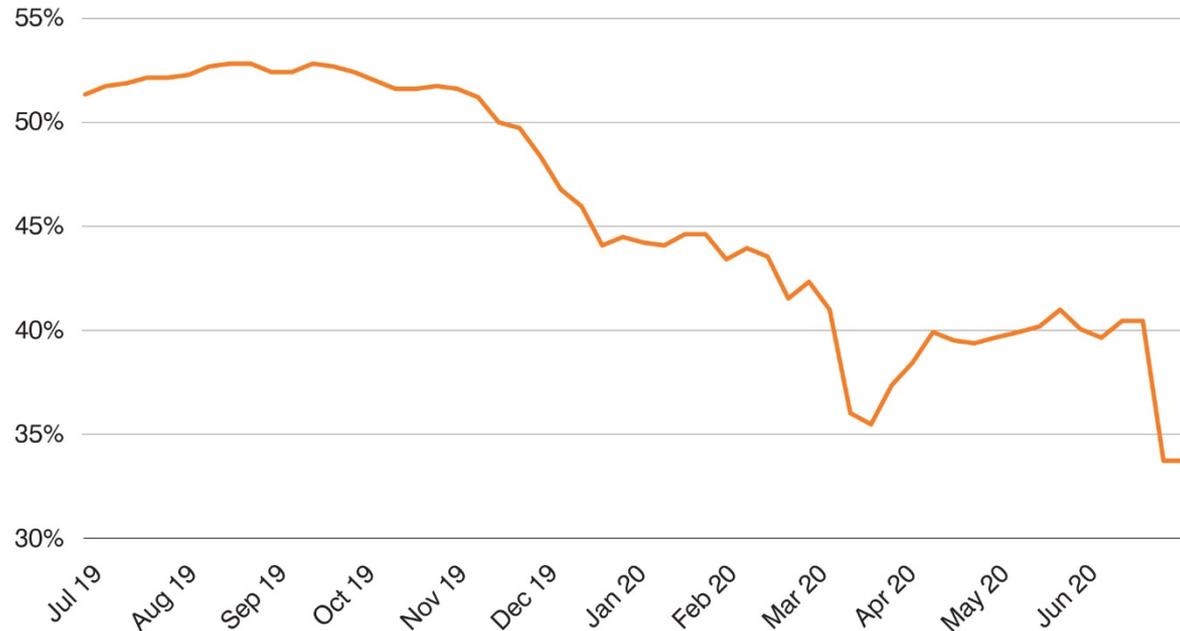
Recurring, predictable earnings
that produce growing dividends

Financial strength – strong cash
flow and balance sheet

Portfolio update – we continue to concentrate the portfolio in high quality companies



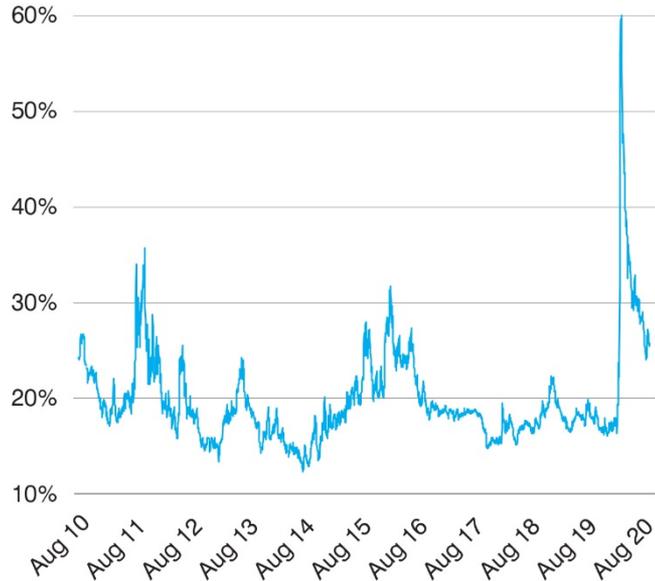
Portfolio update – option coverage is at the lower end of the usual range avoiding too much coverage on holdings with good growth prospects



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Portfolio update – whilst market volatility increased recently, interest rates are very low which impacts option premiums

ASX 50 Implied Volatility



180 Day Bank Bill Rate



Top 20 holdings 30 September 2020

Rank	Company	% of Portfolio
1	BHP Group*	7.3%
2	CSL*	7.3%
3	Commonwealth Bank of Australia*	6.1%
4	Macquarie Group*	5.1%
5	Westpac Banking Corporation*	4.9%
6	Transurban Group*	4.9%
7	National Australia Bank*	4.1%
8	Woolworths Group*	4.0%
9	Australia and New Zealand Banking Group*	3.4%
10	Telstra Corporation*	3.3%

* Options were outstanding against part of the holding.

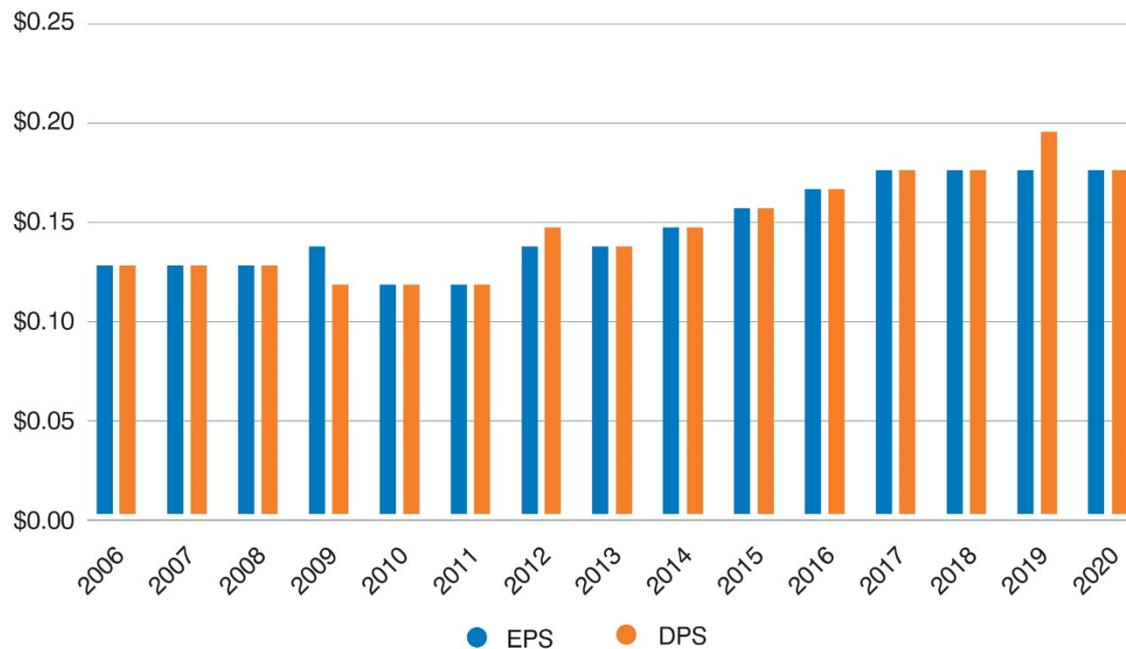
Top 20 holdings 30 September 2020 continued

Rank	Company	% of Portfolio
11	Sydney Airport*	3.2%
12	Goodman Group*	3.1%
13	Wesfarmers*	2.8%
14	Amcor*	2.5%
15	Ramsay Health Care*	2.3%
16	Brambles*	2.0%
17	Rio Tinto*	1.9%
18	APA Group*	1.8%
19	Insurance Australia Group	1.8%
20	James Hardie Industries*	1.8%

* Options were outstanding against part of the holding.

Recent purchases: BWP Trust – new to the portfolio

BWP own a high quality property portfolio that has generated excellent risk-adjusted returns over time.

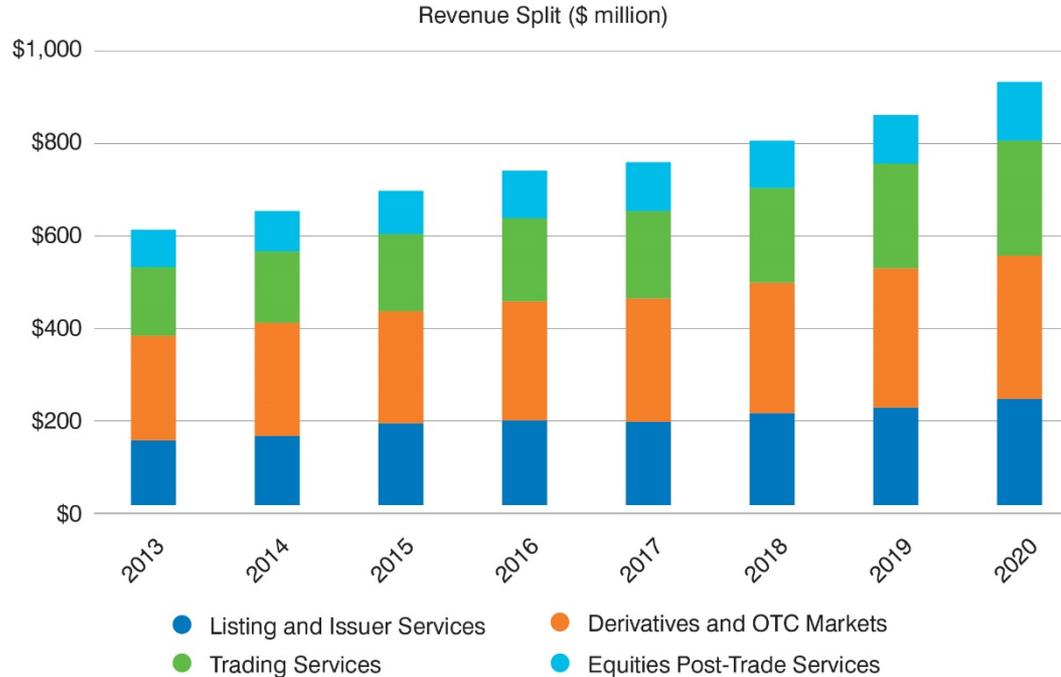


Source: Company Reports

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Recent purchases: ASX – new to the portfolio

ASX is a dominant business that has delivered solid growth over the long term. Its revenue stream is well diversified, resilient and still has attractive long term growth prospects.

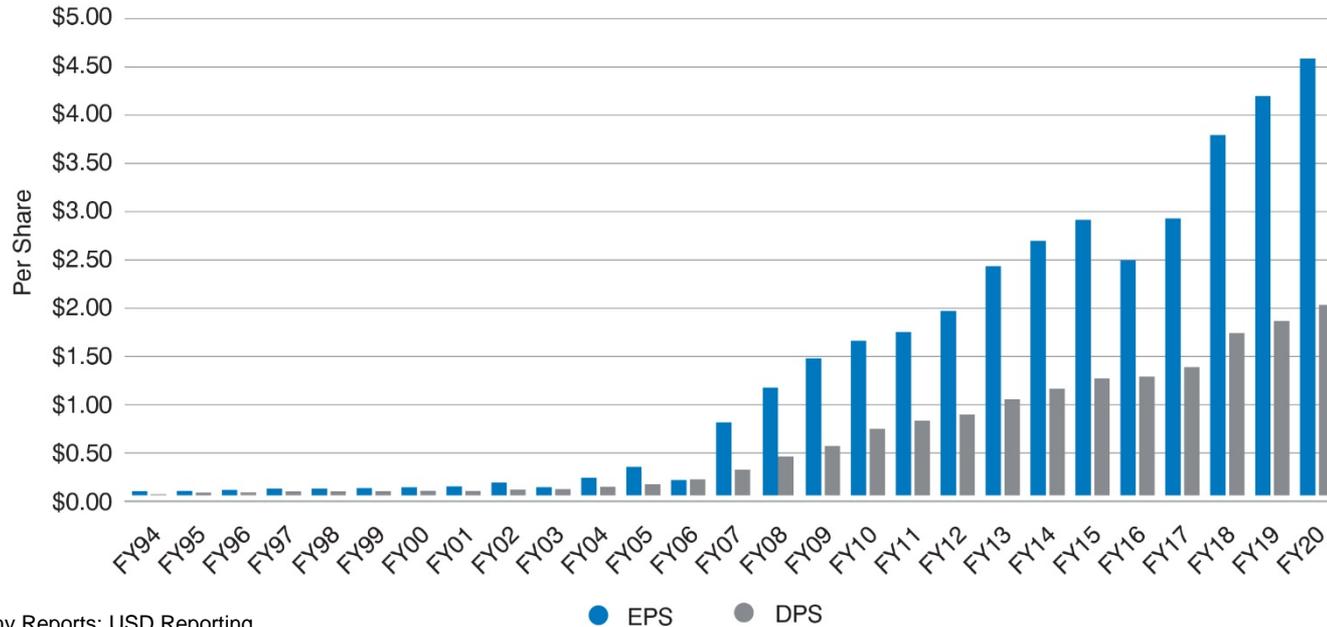


Source: Company Reports

Recent purchases: CSL – addition to existing holding

CSL has delivered outstanding returns to investors over the long term.

It has produced strong returns on equity over the long term – currently in the order of 35%.



Source: Company Reports; USD Reporting

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Outlook



Closing comments

- COVID-19 pandemic – short and long term impacts.
- Company reporting season illustrated some sectors are benefiting from this disruption.
- Low interest rates appear to be driving the market, as valuations remain high (very high for some sectors) despite uncertain economic conditions globally.
- The downturn in company dividends expected to continue for the financial year ending 2021, with recovery to take some time.
- Djerriwarrh will consider an appropriate dividend from year to year as business conditions flowing from COVID-19 become more apparent.



Djerriwarrh
AUSTRALIAN EQUITIES, ENHANCED YIELD