DIVERSIFIED UNITED INVESTMENT LIMITED

ABN 33 006 713 177

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 30TH ANNUAL GENERAL MEETING OF THE COMPANY HELD BY AUDIO AND VIDEO CAST ON THURSDAY 14TH OCTOBER 2021 AT 10.00 AM

The profit after income tax was $31.0 million in the year to 30 June 2021, an increase of 3.1% on the previous year. If special dividends received, capital gains distributed from managed funds and unrealised gains on unlisted investments are excluded, the result of $22.6 million is a decrease of 18% on the previous year.

Leaving aside the special dividends received, capital gains distributed from managed funds and unrealised gains on unlisted investments, the year's result reflects a 15.6% decrease in income from dividends and trust income, a 7.1% increase in income from international investments, and a 2.9% fall in net interest expense.

Excluding special dividends received, capital gains distributed from managed funds and unrealised gains on unlisted investments, the Company's revenue fell 14.3% from last year. The Company's investment portfolio has continued to be affected by the COVID-19 pandemic during the financial year. Revenue has been reduced by the fall in dividend and distribution income from the Company's investments, particularly in the first half of the financial year.

The weighted average number of ordinary shares on issue for the year was 211.9 million as against 211.5 million in the previous year, an increase of 0.2%.

Excluding special dividends received, capital gains distributed from managed funds and unrealised gains on unlisted investments, earnings per share was 10.7 cents compared to 13.1 cents for the previous year, a decrease of 18.3%.

This year special dividends were received from Rio Tinto, Wesfarmers and Napier Port Holdings. Special dividends received, capital gains distributed from managed funds and unrealised gains on unlisted investments totalled $8.4 million after tax compared to $2.5 million in the previous year. Including special dividends received, capital gains distributed from managed funds and unrealised gains on unlisted investments, earnings per share rose 2.8% to 14.6 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, unchanged from last year.

The Directors have decided to maintain the final dividend even though total dividends for year ended 30 June 2021 are not covered by earnings in the year. There are sufficient accumulated retained earnings and franking credits to draw on to cover the final dividend payment for the year ended 30 June 2021 on a fully franked basis.

The Company has maintained or increased its dividend paid per share every year since listing in 1991.

Bank borrowing facilities were $135 million at the end of the financial year, drawn as to $117.5 million, amounting to around 9.3% of the market value of the investment portfolio, which is below the historical range of 10-12%. Last year, borrowings drawn were $72.5 million.

Cash on hand and short-term receivables were $14.7 million at the end of the financial year, representing 1.2% of the portfolio (last year $38.1 million, 3.7%). Net debt as a proportion of the portfolio excluding cash, was 8.3% (last year 3.5%).

Our annual interest expense on the borrowings was covered 15.0 times by profit before interest and tax (last year 12.7 times).

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Operating expenses, excluding borrowing costs, represented 0.13% of the average market value of the portfolio, (last year 0.13%). 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 0.18% (last year 0.17%).

The pre-tax net tangible asset backing per share after provision for the final dividend rose from $4.37 at 30 June 2020 to $5.27 at 30 June 2021, a rise of 20.6%.

This was in a year in which the Australian S&P/ASX 200 Price Index rose 27.8%, while the MSCI All Countries World Index Ex Australia increased by 27.7% in Australian dollar terms. In local currencies, Standard & Poors 500 rose 38.6%, the UK Financial Times 100 Index rose 14.1%, and the Japan Nikkei – 225 Index rose 29.2%.

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 shown on the slide.

To 30 June 2021	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	24.4	27.1	27.8
3 Years	9.8	12.0	9.6
5 Years	12.5	13.8	11.2
10 Years	10.1	11.5	9.3

The 10 year compounded performance is 10.1% per annum, compared to the accumulation index of 9.3% 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 dividends for the entire market is around 75%.

Including the benefit of franking credits paid to shareholders (for shareholders who can fully utilise them), the Company's net asset backing accumulation return for the year was a rise of 26.2%, compared to the rise of 29.1% in the S&P/ASX 200 franking credit adjusted return.

The relative performance of the Company's equity portfolio for the year was assisted by investments in Washington H Soul Pattinson, Rio Tinto, ANZ and exposure to the US market, and an underweight allocation to the utilities sector.

Relative performance was held back by overweight holdings in CSL, Transurban, Atlas Arteria and exposure to global emerging markets, and an underweight allocation to the gold sector.

The Annual Report provides details of the investments of the Company at 30 June 2021 and 30 June 2020, and the proportion of the market value of the investment portfolio held in each company.

At 30 June 2021 we were 80.2% invested in 40 Australian listed companies or trusts, 18.6% invested in international equities via seven exchange traded funds and four emerging markets managed funds, and 1.2% in cash and short term receivables. The foreign exchange currency exposure is currently unhedged.

The largest 25 equity investments, including international investments, comprised 83.2% 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 17%, Mining and Energy 13%, Infrastructure and Transport 11%, Consumer 9%, and Property 4%. International equities represented 19%, and cash on hand and other investments was 1%.

Turnover of the portfolio for the year was 3.3%.

Since the end of the financial year, we have invested in Carsales and increased our holdings in Ramsay Health Care, BHP, Endeavour and Transurban. We have disposed of our holdings in Origin Energy, Aurizon, LendLease and Napier Port and reduced our holding in Australian Unity Office Fund.

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At 30 September 2021 our borrowing facilities were $135 million, drawn as to $127.5 million while cash and short term investments were $10 million. The portfolio was invested in Banks and other Financials 27%, Healthcare 18%, Infrastructure and Transport 12%, Mining and Energy 11%, Consumer 9%, Property 3%. International Equities were 19%, while cash on hand and other investments was 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 $5.27 at 30 June 2021 and $5.42 at 30 September 2021.

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 $4.33 at 30 June 2021 and at 30 September 2021 was $4.46.

<u>OUTLOOK:</u>

One feels being in this market is like lying in a bathtub of warm water. It is pleasant and the level is rising.

There are four taps pouring in warm water. One is labelled ‘Quantitative Easing’, the second ‘Government Expenditure’, the third ‘Dividends’ and the fourth ‘Buy-Back’. There is a hand hovering over the quantitative easing tap which may turn to off to some extent.

At the bottom of the bathtub there are a number of outlets with plugs in them. One is labelled ‘Inflation’, the second ‘Interest Rates’, the third ‘International Tensions’, and the fourth is called ‘Left Field’ and this plug can unexpectedly lift on its own, and the fifth ‘International Investments’ which is two-way and partially opened.

There is much activity on the surface of the water with soap cakes called ‘Public Investors’ jumping into the water, bubbles coming to the surface called ‘IPO’s; and little boats sailing around called ‘Hedge Funds’, ‘Private Equity’ and ‘Mergers & Acquisitions”. There is high activity but only a frenzy in that part of the water called high technology.

Looking out the window the outlook is improving with a mist called ‘COVID’ gradually lifting.
Looking around the bathroom, there is really nowhere else to go so we lie comfortably and complacently in the rising warm water and we won’t mind greatly if the water overflows. However, at some stage some of the taps will be turned off and some of the plugs will be lifted and the water will drain out. We will hope the water level does not fall too much.

For the year ahead, we see some tightening of the taps called ‘Quantitative Easing’, and ‘Government Expenditure’ but expect most of the plugs to stay firmly in place. On balance, the water may cool and the level may stay steady or rise only a little.

What the above parable says is that we have had a strong rise in the market over the last twelve months, we will remain fully invested, and while we expect the market to remain buoyant in the year ahead, it is too complex an outlook to have any confidence one way or another. We consider the risks in our portfolio are somewhat reduced by having 19% in managed international funds and the Australian portfolio invested in approximately 40 leading companies operating in a variety of industries.

We have maintained our fully franked dividend over the last two years by drawing on retained earnings from earlier years. For the year ahead, we expect to maintain our dividend without drawing on retained earnings of previous years.

Charles Goode
Chairman