DIVERSIFIED UNITED INVESTMENT LIMITED

ABN 33 006 713 177

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 27TH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 171 COLLINS STREET, MELBOURNE ON TUESDAY 16TH OCTOBER 2018 AT 9.00 AM

Ladies and Gentlemen,

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

The profit after income tax was $34.6 million in the year to 30 June 2018 an increase of 5.3% on the previous year but if special dividends and capital gains distributed from managed funds are excluded the result of $31.8 million is an increase of 6.9%. Leaving aside the special dividends and distributed capital gains, the year's result reflects a 3.7% increase in income from dividends and trust income, a 55% increase in income from international investments and managed funds and a decrease in options premium income of 79%.

The weighted average number of ordinary shares on issue for the year was 209 million as against 208 million in the previous year, an increase of 0.6%.

Excluding special dividends and capital gains received, earnings per share were 15.2 cents, compared to 14.3 cents for the previous year, an increase of 6.3%.

This year special dividends were received from Adelaide Brighton, South32 and Westfield Group. Special dividends together with capital gains distributed from managed funds in which the Company invests totalled $2,763,000 compared to $3,059,000 last year. Including the special dividends and capital gains received, earnings per share rose 4.4% to 16.5 cents.

A fully franked final dividend of 8.5 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 15.0 cents per share fully franked, a 3.4% increase on last year's total dividend of 14.5 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. Over those last 27 years, to our knowledge only 2 companies that have been in the ASX All Ordinaries Index for all that time have matched that dividend performance. Listed investment companies are not included in the All Ordinaries Index and of the seven companies in the Australian Listed Investment Companies Association, only DUI and two others have matched this record of maintaining or increasing the dividend every year for 27 years.

Bank borrowing facilities were $115 million at the end of the financial year, drawn as to $95 million, unchanged from last year, amounting to around 9.2% of the market value of the investment portfolio, slightly below the historical range of 10-12%.

Our annual interest expense on these borrowings was covered 9.7 times by profit before interest and tax. Cash on hand and short term receivables were $17M at the end of the financial year, representing 1.7% of the portfolio.

Operating expenses, excluding borrowing costs, represented 0.12% of the average market value of the portfolio, the same as 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% which was the same as last year.

The pre tax net tangible asset backing per share after provision for the final dividend rose from $3.92 at 30 June 2017 to $4.39 at 30 June, 2018, a rise of 12.0%.

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This was in a year in which the Australian S&P/ASX 200 Price Index rose 8.3%, while the MSCI All Companies World Index increased by 15.6% in Australian dollar terms. In local currencies, Standard & Poors 500 rose 14.4%, the UK Financial Times 100 Index rose 8.8%, and the Japan Nikkei – 225 Index rose 13.1%.
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 2018	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	15.8	14.4	13.0
3 Years	10.8	9.6	9.0
5 Years	11.1	11.4	10.0
10 Years	6.9	6.9	6.4

The 10 year compounded performance is 6.9% per annum, compared to the accumulation index of 6.4% 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 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 17.3%, compared to the rise of 14.6% 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 and Healthcare sectors, and by its underweight positions in the Telecommunications sector. In Australian dollar terms the international portfolio also contributed to outperformance.

The Annual Report provides details of the investments of the Company at 30 June 2018 and 30 June 2017, and the proportion of the market value of the investment portfolio held in each company.

In July this year the board increased the target asset allocation range for international equities from 10-15% to 10-20% of the portfolio and further investments were made in the Vanguard FTSE Developed European Ex UK Index ETF, Vanguard US Total Market Shares Index ETF, Vanguard All-World ex-US Shares Index ETF, Vanguard FTSE Japan UCITS ETF, iShares TR MSCI USA Minimum Volatility Index ETF, Northcape Capital Global Emerging Market Fund, ChinaAMC China Opportunities Fund and Cooper Investors Asian Tiger Fund.

At 30 June 2018 we were 82.0% invested in 41 Australian listed companies or trusts, 1.9% in Small Cap managed funds, 14.5% invested in international equities via seven exchange traded funds and three emerging markets managed funds, and 1.6% in cash and short term receivables.

The largest 25 equity investments comprised 81.2% of the portfolio and the details are set out on page 5 of the Annual Report.

At 30 June the largest industry sectors were Financials and Insurance 31%, Healthcare 13%, Infrastructure and Transport 10%, Mining 9%, Energy 7% and Property 5%. International equities represented 14.5%, the small cap managed funds 1.9%, other investments 7% and cash on hand was 1.6%.

Turnover of the portfolio for the year was 3%.

In the last few years we have significantly increased contact with the CEO's of numerous listed companies. In 2018 to date we have met with the CEO's and senior management of 22 companies.

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Since the end of the financial year, we have reduced our holdings in Oil Search, Origin Energy, Suncorp and Brambles, added Challenger Group and increased our holdings in Janus Henderson, Transurban, Stockland, Unibail-Rodamco-Westfield and added to our international holdings.

At 30 September 2018 our borrowing facilities were $115M, drawn as to $105M while cash and short term investments were $10M. The portfolio was invested in the Financials 30%, Healthcare 13%, Infrastructure and Transport 11%, Mining 8%, Energy 6%, Property 6%, Small Cap Managed Funds 2% and International Equities 16%, 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 $4.47 at 30 June 2018 and $4.49 at 30 September, 2018.

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 $3.81 at 30 June 2018 and at 30 September 2018 was $3.81.

ALP Dividend Imputation Proposal

Your Board is deeply concerned about the ALP's proposal to deny franking credit refunds to low tax rate individuals and superannuation funds.

The effects of the policy would be to:

- Reduce the retirement incomes of around 1 million Australian who have saved prudently for a self-sufficient retirement;
- Reduce the initiative for Australians to save for their own retirement and increase the numbers applying for a Government pension, increasing taxpayer burden;
- Distort the dividend imputation system unfairly as many high tax payers and those in large superannuation funds would be able to offset franking credits against other tax but for low tax payers the franking credit would increase their effective tax rate on dividend income;
- Unfairly disadvantage SMSF retirees or those that own shares directly compared to retirees in industry and retail super funds or public sector retirees.
- Weaken the supply of capital available to Australian companies as investors move away from Australian listed shares to other asset classes such as foreign shares.

This is a flawed and unfair policy which will retrospectively hurt older self-funded retirees, increase the Government pension burden, and discourage Australians to save for a self-sufficient retirement; and will not raise the forecasted revenue.

The Australian Listed Investment Companies Association will be making a submission to the Commonwealth Standing Committee on Economics on this matter and we urge shareholders to make their views known to the Committee and their Member of Parliament.

Outlook:

The outlook for the Australian economy looks good with low unemployment, low inflation, low interest rates and a program to reduce the budget deficit.

The international outlook is also reasonable led by the United States where the share market is boosted by a strong technology segment, numerous corporate buy-backs and stimulatory policies from the Government, including a lower corporate tax rate, one year tax write-offs for capital expenditure on plant and equipment, reduced regulations inhibiting business, and a major infrastructure program.

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There are of course hot spots and clouds on the international and domestic horizons including trade tensions between the USA and China, geopolitical tensions in the Middle East and on the Korean Peninsula, a possible slowdown in economic growth in China and a significant downturn in residential building in Australia.
These various factors on balance have led our share market to rise and in particular a number of growth companies are on very high price earnings ratios and there have been strong rises in the resource sector.

Our share market seems high to us in relation to earnings and growth prospects. Our biggest concern is the emergence of inflation in the US, which might result in an accelerated normalisation of interest rates. This scenario poses a particular risk to current stockmarket valuation levels, although investment in the shares of quality, cash generating businesses remain a reasonable proposition in comparison to fixed interest securities on a long term investment horizon.

We are finding it difficult to find new investments with growth prospects among the established dividend paying companies in Australia. Over the last year we have been directing the cash available from sales or the drawdown of bank facilities into international funds. We will stay fully invested and envisage only modest changes in our investment portfolio.

Charles Goode
Chairman