DIVERSIFIED UNITED INVESTMENT LIMITED

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15 October 2020

Electronic Lodgement

2020 Annual General Meeting Presentation

Dear Sir/Madam,

In accordance with the ASX Listing Rules, I enclose the presentation of the Chairman, which will be delivered today at the Diversified United Investment Ltd 2020 Annual General Meeting.

Authorised by:
James Pollard
Company Secretary

DIVERSIFIED UNITED INVESTMENT LIMITED

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CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 29TH ANNUAL GENERAL MEETING OF THE COMPANY HELD BY AUDIO AND VIDEO CAST ON THURSDAY 15TH OCTOBER 2020 AT 9.00 AM

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

The profit after income tax was $30.1 million in the year to 30 June 2020 a decrease of 21% on the previous year. If special dividends and capital gains distributed from managed funds are excluded the result of $27.6 million is a decrease of 17%. Leaving aside the special dividends and distributed capital gains, the year's result reflects a 19% decrease in income from dividends and trust income, a 4% increase in income from international investments and a 39% fall in net interest expense. There was $199,000 of options trading income and other income. (Last year, nil).

Excluding the special dividends and capital gains distributions, the Company's revenue fell 17.1% on last year. During the second half of the financial year the COVID-19 pandemic affected the operations and outlook for many of the investee companies and a number of dividends and distributions were deferred, reduced or cancelled.

The weighted average number of ordinary shares on issue for the year was 211.5 million as against 210.5 million in the previous year, an increase of 0.5%.

Excluding special dividends and capital gains distributions received, earnings per share was 13.1 cents, compared to 15.9 cents for the previous year, a decrease of 17.6%.

This year special dividends were received from Rio Tinto, ASX, Coles Group, Napier Port Holdings and South32. Special dividends together with capital gains distributed from managed funds in which the Company invests totalled $2,448,000 after tax compared to $4,653,000 last year. Including the special dividends and capital gains received, earnings per share fell 21.5% to 14.2 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 2020 are not covered by earnings in the year. Over the previous years, the Company has accumulated retained earnings, particularly by the retention of special dividends received. A modest drawdown of retained earnings has been made to maintain the final dividend. The Company has adequate franking credits to fully frank the final dividend.

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

Due to the continuing economic effects of the COVID-19 pandemic, the Company expects a further significant reduction in dividend income in the current financial year ending 30 June 2021. The Company will assess the dividend policy for the year ended 30 June 2021 having regard to the actual earnings outcome and the medium term earnings outlook at that time.

Bank borrowing facilities were $115 million at the end of the financial year, drawn as to $72.5 million, amounting to around 7.1% of the market value of the investment portfolio, which is below the historical range of 10-12%. Last year borrowings drawn were $95 million.

Cash on hand and short term receivables were $38 million at the end of the financial year, representing 3.7% of the portfolio (last year 7.2%). Net debt as a proportion of the portfolio, excluding cash, was 3.5% (last year 1.4%).

Our annual interest expense on the borrowings was covered 12.7 times by profit before interest and tax.

Operating expenses, excluding borrowing costs, represented 0.13% of the average market value of the portfolio, (0.12% last year). 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 0.17% (last year 0.16%). These management expense ratios are in line with those forecast at last year's Annual General Meeting.

Continued over

The pre-tax net tangible asset backing per share after provision for the final dividend fell from $4.74 at 30 June 2019 to $4.37 at 30 June 2020, a fall of 7.8%.

This was in a year in which the Australian S&P/ASX 200 Price Index fell 11%, while the MSCI All Countries World Index Ex Australia increased by 5% in Australian dollar terms. In local currencies, Standard & Poors 500 rose 5%, the UK Financial Times 100 Index fell 17%, and the Japan Nikkei – 225 Index rose 5%.

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 2020	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	(4.7)	0.2	(7.7)
3 Years	7.2	8.2	5.2
5 Years	7.7	7.8	6.0
10 Years	8.6	8.6	7.8

The 10 year compounded performance is 8.6% per annum, compared to the accumulation index of 7.8% 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 accumulation return for the year was a fall of 3.6%, compared to the fall of 6.6% in the S&P/ASX 200 franking credit adjusted return.

The Company's performance for the year was assisted by overweight positions in healthcare stocks (including CSL), consumer stocks and Transurban. Performance was held back by overweight positions in the energy sector and underweight positions in the strongly performing technology and gold sectors. In Australian dollar terms the international portfolio contributed significantly to outperformance.

The Annual Report provides details of the investments of the Company at 30 June 2020 and 30 June 2019, and the proportion of the market value of the investment portfolio held in each company.

At 30 June 2020 we were 78.4% invested in 35 Australian listed companies or trusts, 17.9% invested in international equities via seven exchange traded funds and three emerging markets managed funds, and 3.7% in cash and short term receivables. The foreign exchange currency exposure is currently unhedged.

The largest 25 equity investments comprised 84.5% 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 22%, Healthcare 21%, Infrastructure and Transport 14%, Mining 9%, Energy 3%, Retailers 4% and Property 3%. International equities represented 18%, other investments 2% and cash on hand was 4%.

Turnover of the portfolio for the year was 5%.

Since the end of the financial year, we have increased our holdings in Australian Unity Office Fund, Aurizon Holdings, Link Administration, BHP Group, Stockland Group, Scentre Group, the Northcape Capital Global Emerging Markets Fund and iShares USA Minimum Volatility Index ETF; participated pro-rata in new issues in Perpetual and Sydney Airport and added holdings in Treasury Wine Estate, The Star Entertainment Group and Cleanaway Waste Management. We have reduced our holdings in Westpac and National Australia Bank and disposed of our holdings in South32 and Vicinity Centres.

At 30 September 2020 our borrowing facilities were $115 million, drawn as to $72.5 million while cash and short term investments were $27 million. The portfolio was invested in Banks and other Financials 20%, Healthcare 21%, Infrastructure and Transport 15%, Mining 9%, Retailers 5%, Property 3%, Energy 3%, and International Equities 19%, while smaller allocations to other sectors represented 2% of the portfolio, and cash 3%.

Continued over

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 $4.37 at 30 June 2020 and $4.34 at 30 September 2020.

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 $3.72 at 30 June 2020 and at 30 September 2020 was $3.70.

<u>OUTLOOK</u>:

The impact of the Coronavirus crisis which arrived in January 2020 has been immediate, severe, and world-wide. In the June Quarter 2020 there was a fall in GDP of around 7% in Australia, 12% in the USA, 15% in the EU, 20% in the UK and 25% in India.

There are forecasts of World GDP falling in calendar year 2020 by around 6% and recovering by around 5% in 2021. World trade is forecast to fall by 10% in calendar 2020 and recover 6% in 2021.

Australia has fared relatively well compared to other countries. However, we should reflect on the underlying factors behind our 28 years of growth before this crisis arose. These factors included a population growth averaging 1.5% while Advanced Countries averaged 0.6%; a housing boom from the mid 1990's to 2017; the rise of China and its demand for our resources; and Government policy based on a strong Government balance sheet. The first three of these factors are not expected to be as strong in the future.

We expect, after the initial quick partial recovery, for it to be a slow recovery taking many years. Unemployment is likely to recover slowly as some business will have reorganised and require less labour while some will go out of business. Inflation and interest rates are expected to be low as is wages growth. People can be expected to be more risk averse, more cautious as they address their deferred mortgage commitments and seek to replenish their savings. In this environment, private capital expenditure is expected to be weak.

We will also be transitioning from Government winding back transfer payments such as Job Seeker and Job Keeper to increasing direct expenditure on infrastructure and incentives to the private sector to encourage employment and investment. We expect our Commonwealth Government Debt to reach $1 Trillion dollars and for us to have Government budget deficits for the next seven years.

On the other hand we are fortunate that Government policy, Reserve Bank policy and the banking system are working together and in the same direction; our banks have strong balance sheets and the financial system has good liquidity; that while the Government debt is rising sharply, it will still be low in relation to GDP compared to other countries; and China appears to be making a strong recovery and its demand for our iron ore is expected to be strong for at least for the next few years.

In this uncertain and complex environment the share market has been volatile with up days when there is progress on containing the virus or finding a vaccine, and when the mood is for investors to be looking across the valley to a better economy. On other days the harsh reality of the economic recession prevails.

The high level of the stock exchange indexes in terms of high price-earnings ratios and low dividend yields is to be seen in the context of unprecedented liquidity, unprecedented low interest rates and investor fascination with the growth prospects of new technologies.

Your Company has a broad based portfolio of leading Australian listed companies and further diversification is provided to the portfolio with 19% of the portfolio invested in leading managed international funds. We are a long-term value investor and we expect to stay fully invested in much the same portfolio for the year ahead.

Charles Goode
Chairman