DIVERSIFIED UNITED INVESTMENT LIMITED

ABN 33 006 713 177

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE TWENTY FIFTH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 147 COLLINS STREET, MELBOURNE ON TUESDAY 18TH OCTOBER 2016 AT 9.00 AM

Ladies and Gentlemen,

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

The profit after income tax was $30.5 million in the period to 30 June 2016 a decrease of 9.6% on the previous year but if special dividends are excluded the result of $30.3 million is an increase of 1.2%. Significantly there were no realised foreign currency exchange gains this year while last year there were $1.1 million after tax. The year's result reflects a 5% increase in income from dividends and trust income, a doubling of income from international investments, a 57% decrease in interest and options income, and a 4% increase in net interest paid.

The weighted average number of ordinary shares on issue for the year was 207 million as against 198 million in the previous year, an increase of 4.3%.

Excluding special dividends received, earnings per share were 14.6 cents, compared to 15.1 cents for the previous year, a decrease of 3.3%.

The decline in earnings per share reflects the lack of foreign exchange gains and a reduction in income from companies in the mining and resources sector, which reduced their dividends due to a substantial cyclical downturn in profits. This year special dividends totalling $246,000 were received from Suncorp, Adelaide Brighton and Insurance Australia Group. Last year special dividends of $3.8 million were received, including the $3.6 million non-cash special dividend from the BHP/South32 demerger. Including the special dividends received, earnings per share fell 13.5% to 14.7 cents.

A fully franked final dividend of 7.5 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 14 cents per share fully franked, unchanged from last year.

The Company has maintained or increased its dividend paid per share every year since listing in 1991, notwithstanding, differing market conditions and several capital raisings. With the share price at 30 September at $3.29, DUI provides a fully franked 4.3% yield compared with around 4.2% for the ASX 200, which is not fully franked.

Bank borrowings were $95 million at the end of the financial year, up from $85 million last year, amounting to around 11% of the investment portfolio at market values, in line with the historical range of 10-12%.

Our annual interest expense on these borrowings was covered 8.6 times by profit before interest and tax. Cash on hand at the end of the financial year was $12 million.

Operating expenses, excluding borrowing costs, represented 0.13% of the average market value of the portfolio, unchanged from last year.

The pre tax net tangible asset backing per share after provision for the final dividend fell from $3.61 at 30 June 2015 to $3.46 at 30 June, 2016, a fall of 4.3%.

This was in a year in which the Australian S&P/ASX 200 Price Index fell 4.1%, while the Standard & Poors 500 rose 1.7%, the UK Financial Times 100 Index fell 0.3%, and the Japan Nikkei – 225 Index fell 2.3%. As DUI invests in the leading shares it is relevant to note that the price index for the top twenty companies by market capitalisation on the ASX fell by 12%.

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:

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To 30 June 2016	DUI Net Asset Backing Accumulation % p.a.	DUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	0.01	(2.73)	0.56
3 Years	7.60	8.32	7.66
5 Years	7.75	9.29	7.40
10 Years	5.05	4.74	4.86

The 10 year compounded performance is 5.05% per annum, which is slightly ahead of the accumulation index of 4.86% 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 75-80%.

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 1.8%, compared to the index rise of 2.1%.

Interest rates continued to decline during the year and interest rate sensitive sectors such as Real Estate Investment Trusts (REITS) and Utilities rose strongly. We have traditionally had less exposure in these less equity like sectors which provide lower franking levels.

On an accumulation basis, the ASX top 20 index fell 7% for the year. As a long term investor we have historically had a heavy weighting to the top 20 stocks given their leadership position and franked income.

In the latest year the Energy sector fell 22%, Financials fell 9%, Healthcare rose 22%, while the Property Trust and Utilities sectors both rose 25%. The Company's relative performance for the year was assisted by its positions in Healthcare and Industrials, but held back by its significant holdings in the top 20 sector, the overweight position in Energy and the underweight positions in Utilities and Property Trusts. In Australian dollar terms the international portfolio performed for the year broadly in line with the Australian index.

The Annual Report provides details of the investments of the Company at 30 June 2016 and 30 June 2015, and the proportion of the market value of the investment portfolio held in each company.

At 30 June 2016 we were 89% invested in 46 Australian listed companies or trusts, 10% in international equities and 1% in cash and short term receivables.

The largest 25 equity investments comprised 79% 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 37%, Healthcare 14%, Infrastructure and Transport 12%, Mining and Mining Services 8%, Energy 6%, Property 5% and International Equities 10%. Other Investments were 7% and cash on hand was 1%.

Turnover of the portfolio remains low. The average turnover of the portfolio (sales as a percentage of portfolio value) was 8% per annum over the last 5 years which means that on average we hold an investment for thirteen years.

Since 30 June we have allocated $5 million each to two selected Small Cap managers, with good track records and reasonable fees. They are Colonial First State Wholesale Investment Small Companies Core Fund and Realindex Australian Small Companies Fund. We intend over the next 6 months to allocate up to another $10 million in total to these two managers. That will bring the allocation to the small caps sector to $20 million, or around 2.3% of the portfolio, but over time we may allocate up to 5% of the portfolio in this way to this sector. The Board sees advantages to shareholders in diversifying the portfolio away from the top 100 stocks which the directors follow by using carefully selected and monitored managers in this sector. This will avoid the risks and costs of the Company analysing and selecting its own Small Cap companies, and gain better access to Small Cap IPO's and placements. As with our move into low cost managed international investments last year this adds further diversification to our portfolio.

Also since the end of the financial year, we have reduced our holdings in South32 and Medibank Private and disposed of our Asciano holding via takeover. We have added to our holdings in Commonwealth Bank, Lend Lease, Sydney Airport and AMP.

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At 30 September 2016 our borrowings were $95M while cash and short term investments were $13.6M. The portfolio was invested in the Financials and Insurance 38%, Healthcare 11%, Mining and Mining Services 10%, Infrastructure and Transport 9%, Energy 6%, Property 6% and International Equities 10%, while smaller allocations to other sectors represented 8% 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 $3.46 at 30 June 2016 and $3.61 at 30 September, 2016.

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 $3.07 at 30 June 2016 and at 30 September 2016 was $3.19.

<u>Outlook</u>:

At last year's annual meeting we noted that the S&P ASX 200 Price Index had fallen 8% from 1 July to 30 September, 2015, and we said that "we consider that the balance of probability is for this loss to be recovered by the end of this financial year". As it turned out half of the fall was recovered during the following nine months and the Index ended down 4%.

The outlook for the year ahead is more than usually complex and difficult to assess. The world is growing at a slower rate than we have experienced over the last twenty years: there is low inflation due to weak demand, excess industrial capacity in China and depressed commodity prices; and there is high government debt and a reliance on monetary stimulation.

We have disappointing political leadership in the Western World. We have globalisation, with increased trade from lower cost labour countries leading to low consumer inflation and monetary policies of low or negative interest rates causing asset inflation. Both these forces are leading to increased inequality of income within countries. There is a wider than normal political division between the left and the right with popularist politicians attracting more support.

These factors are leading to more people protesting against free trade, the movement of people and income inequality. There is a trend towards nationalism and the support for popularist policies.

We have a commitment to our shareholders to be fully invested in equities and we have modest borrowings to provide interest expense to offset against unfranked dividend income.

The risks we are facing include low growth, perhaps rising interest rates, the limits of monetary stimulation having been reached and non-visionary world leadership.

In this environment we have asset values reflecting the monetary stimulation and at current levels there is little cushion against one of the many risks escalating to a more serious situation. This environment is impacting on all assets and equities while being over-valued on an historical basis are not over-valued compared to other asset classes.

With these factors in mind we are continuing our policy of being a long term equity investor with more emphasis on diversification and a reduced expectation of rewards in the year ahead.

Charles Goode
Chairman