

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

## CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 59<sup>th</sup> ANNUAL GENERAL MEETING OF THE COMPANY  
HELD AT 147 COLLINS STREET, MELBOURNE ON TUESDAY 15<sup>TH</sup> 2013 AT 11.00 AM

Ladies and Gentlemen,

Welcome to this year's Annual General Meeting.

For the financial year just ended the Company's operating profit after income tax which excludes net realised investment gains was \$35.5M compared to \$32.6M in the previous year – an increase of 9%.

If special dividends received in both periods are excluded profit was \$34.3M, an increase of 6%. This year special dividends and distributions of \$1,182,901 after tax were received from Westpac Bank, Woodside Petroleum, Coca Cola Amatil and Woolworths. Special dividends and distributions totalling \$37,874 were received in the previous year.

The operating profit reflects an increase in dividends and trust distributions received, a decrease in option premium and sub-underwriting fees and a decrease in net interest paid.

The operating earnings per share excluding net realised gains and excluding special dividends and distributions were 32.2 cents, compared to 31.0 cents for the previous year.

The weighted average number of ordinary shares on issue for the year was 106 million as against 105 million in the previous year, an increase of 1%.

Bank borrowings were \$100M at the end of the financial year (previous year \$100M) amounting to around 11% of the investment portfolio at market values. Cash on hand, cash on deposit and short term receivables were \$37M, or 4% of the investment portfolio at market values (previous year \$13M, or 2%).

The Company's operating expenses (excluding borrowing costs) expressed as a percentage of the average market value of the portfolio were equivalent to 0.13%, the same as the previous year.

The asset backing per share before provision for the final dividend and estimated tax on unrealised gains was \$7.49 at 30 June 2013, compared to \$6.26 at 30 June 2012.

The Company's compound annual growth in net asset backing (assuming all dividends were re-invested), and separately in share price, compared to the S&P/ASX 300 Accumulation Index in each of the past one, three, five and ten year periods is as follows:

To 30 June 2013	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 300 Accumulation Index % p.a.
1 Year	24.5	29.1	21.9
3 Years	8.0	5.2	8.2
5 Years	2.7	1.8	2.7
10 Years	10.2	8.6	9.3

This year the Company outperformed the index by 2.6% and the 10 year compounded performance is now 10.2% per annum, ahead of the accumulation index of 9.3% per annum and amongst the leaders of our peer group of listed investment companies.

The Company's net asset backing accumulation performance is after tax and expenses and the impact of the Company's gearing for which no allowance is made in the index.

*Continued over*

The final dividend for the year ending 30 June 2013 is 16 cents per share fully franked which, with the interim dividend of 13.5 cents per share fully franked, makes a total dividend for the year of 29.5 cents per share fully franked, an increase of 1.5 cents on last year.

We are very proud that over the last 20 years the dividend has been increased every year except one in 2009 when it was held steady.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 41 companies. The Annual Report provides a list of the shareholdings at 30 June 2013 and 30 June 2012; the changes to the portfolio during the year; the percentage of the investment portfolio in terms of market values of each investment; and the twenty-five largest investments ranked in order of size at 30 June 2013.

The largest investments in terms of market value at balance date were ANZ Bank, Commonwealth Bank, Westpac Bank, BHP Billiton, National Australia Bank, Wesfarmers and Woodside Petroleum. These seven investments at 30 June 2013 comprised 49% of the portfolio and our twenty-five largest investments comprised 87% of the portfolio.

In the year to 30 June 2013 the portfolio was revalued up by \$126M to a market value of \$865M (2012: revalued down by \$106M to a market value of \$744M), the change being taken directly to the asset revaluation reserve.

The share portfolio was invested as to 73% in the top 20 companies by market capitalisation; 9% in companies 21 to 50 in size; 7% in companies 51 to 100; and 11% in companies outside the largest 100 companies.

At 30 June 2013 the main sectors of the portfolio were Financials 42%, Resources 22%, Consumer Staples 12%, Industrials 7% and Utilities 5%. Cash on hand and short term receivables at 30 June 2013 were 4% of the portfolio.

Since the end of the financial year, we have reduced our holdings in SP AusNet and AGL Energy. We have added to our holdings in ALS, Origin Energy and Oil Search and added Sydney Airport and Brickworks to our portfolio.

At 30 September the composition of our portfolio was broadly 43% in Financials, 24% Resources, 11% Consumer Staples, 6% Industrials, 4% Utilities. Cash on hand and short term receivables was 4%.

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 \$7.33 at 30 June, 2013 and \$8.14 at 30 September, 2013.

AUI 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 at 30 June 2013 was \$6.41 per share and at 30 September 2013 was \$7.03.

Outlook:

The share market has had a very good rise over the last twelve months and shares seem fully valued on the basis of price earnings ratios. We are finding it hard to find companies in which we wish to make an investment.

On the other hand franked dividends provide an attractive yield compared to bank deposits and interest bearing securities. Also the world outlook is improving with what appears to be a solid but relatively slow recovery in USA, the prospect of growth in Japan, and the situation in China and Europe not as worrying as twelve months ago. Some of the developing economies such as Indonesia, India and Brazil seem to be experiencing more difficult times.

In Australia we see benefits from a more stable private enterprise oriented Government and a lower Australian dollar.

Given the backdrop of an improving world picture and continued high world liquidity together with more confidence within Australia we expect the Australian share market to be able to hold the gains made over the last year.

I would like to repeat what I said in last year's Chairman's Address, namely:

"What you can reasonably expect in these uncertain times from your investment in Australian United Investment Co. Ltd. in the year ahead is that:

- the portfolio will comprise shares in 40 – 55 Australian companies with 80% or more of the funds being held in leading companies in the ASX100;
- the borrowings of the Company to be 10 – 15% of the market value of the portfolio;

- the annual turnover of the portfolio to be 3 – 12% of the market value of the portfolio;
- the payout ratio will be around 90% of the net profits after tax and be fully franked;
- the dividend rate per share will be maintained with the possibility of a modest increase;
- the uncertain conditions make it too difficult to have a confident view as to the change in the market value of the net tangible assets per share.

Of course these expectations would need to change if unforeseen events eventuate or the Board considers it prudent to change their current policies in respect to the management of the investments."

On balance, we expect the share market to be higher at the end of this financial year than it was at the opening of the year.

Charles Goode  
Chairman