AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 64th ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 171 COLLINS STREET, MELBOURNE ON TUESDAY 16TH OCTOBER 2018 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 $47.8M compared to $44.1M in the previous year – an increase of 8.3%.

If special dividends and distributed capital gains received from managed funds in both periods are excluded, profit increased 6.8% to $45.3M. This year special dividends and distributed capital gains of $2,470,712 after tax were received. In the previous year special dividends and capital gains distributions received totalled $1,656,151.

The weighted average number of ordinary shares on issue for the year was 123.9 million as against 123.6 million in the previous year, an increase of 0.3%.

Earnings per share was 38.6 cents, compared to 35.7 cents for the previous year, an increase of 8.1%. Excluding special dividends and capital gains distributions received, earnings per share was 36.5 cents, compared to 34.3 cents for the previous year, an increase of 6.4%.

The final dividend for the year ending 30 June 2018 is 19.0 cents per share fully franked which, with the interim dividend of 16.0 cents per share fully franked, makes a total dividend for the year of 35 cents per share fully franked, a 2.9% increase on last year.

The Company has maintained or increased its dividend paid per share every year since 1994, notwithstanding varying market conditions and several capital raisings. Over those last 24 years to our knowledge only 4 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. Of the seven companies in the Australian Listed Investment Companies Association, four companies have maintained or increased their dividend every year for 24 years.

The Company's operating expenses (including the management fees of the small cap managed funds in which the Company is invested, and excluding borrowing costs) were equivalent to 0.09% of the average market value of the portfolio compared to 0.10% in the previous year.

Bank borrowing facilities were $150M, drawn as to $130M at the end of the financial year (last year $130M, drawn as to $130M) amounting to around 10.3% of the market value of the investment portfolio. Cash on hand, cash on deposit and net short term receivables were $39M, or 3.1% of the investment portfolio at market values (last year $53M, or 4.8%).

Annual interest expense was covered 10.5 times by investment income.

The net asset backing per share after provision for the final dividend and before estimated tax on unrealised gains was $9.02 at 30 June 2018, compared to $8.57 at 30 June 2017, a rise of 7.5%.

The performance of an investment in AUI based on net asset backing per share, and separately on share price, assuming all dividends were re-invested, compared to the S&P/ASX 200 Accumulation Index in each of the past one, three, five and ten year periods is as follows:

To 30 June 2018	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	11.8	11.4	13.0
3 Years	8.1	7.0	9.0
5 Years	8.9	9.7	10.0
10 Years	5.7	5.7	6.4

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. Further the Company's dividends are fully franked, while the level of franking of the whole market is around 75%.

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Including the benefit of franking credits for shareholders who can fully utilise them, the Company's net asset accumulation return for the year to 30 June 2018 was a rise of 13.5% compared to a rise of 14.6% in the S&P/ASX 200 Franking Credit Adjusted Total Return Index.

Performance for the year was solid in light of the environment. The financial year was a period of high absolute returns for the ASX 200 index which was up 13% on an accumulation basis. The Company takes a long term conservative approach to investing and was underweight a number of the stocks on a high price/earnings ratio and the speculative sectors and both these groups significantly outperformed the boarder market. For example the small and mid-cap resources sectors rose over 40% for the year.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 45 companies and two small cap managed funds. The Annual Report provides a list of the shareholdings at 30 June 2018 and 30 June 2017; 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 2018.

The largest investments in terms of market value at balance date were Commonwealth Bank, ANZ Bank, CSL, Westpac Bank, Wesfarmers, BHP Billiton, Rio Tinto, and National Australia Bank. These eight investments at 30 June 2018 comprised 45.5% of the portfolio and our twenty-five largest investments comprised 81.3% of the portfolio.

At 30 June 2018 the main sectors of the portfolio were Financials and Insurance 36%, Resources 20%, Consumer 13%, Healthcare 12% and Infrastructure and Transport 10%. The Small Cap managed funds were 1.5%. Other investments were 3.5% and cash on hand was 3%.

Turnover of the portfolio for the year was 4%.

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

Since the end of the financial year, we have increased our holdings in Alumina Ltd, National Australia Bank, Westpac Bank, Commonwealth Bank, ANZ Bank, Sydney Airport, Seek, JB Hi Fi, Transurban and Challenger and added oOh!Media to our portfolio. We have reduced our holding in IDP Education and Ramsay Healthcare and sold our holdings in Telstra Corporation and Regis Healthcare.

At 30 September the composition of our portfolio was broadly 37% in Financials and Insurance, 21% Resources, 14% Consumer, 12% Healthcare and 11% Infrastructure & Transport. The two Small Cap managed funds were 2%. Other investments were 2% and cash on hand was 1%. Borrowings facilities were $150M, drawn as to $125M, or 10% of the portfolio.

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 $9.02 at 30 June, 2018 and $9.23 at 30 September, 2018.

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 2018 was $7.72 per share and at 30 September 2018 was $7.91.

<u>ALP Dividend Imputation Proposal</u>

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;

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- 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 in will not raise the forecasted revenue.

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

<u>Outlook:</u>

The outlook for the Australian economy and more broadly the global economy continues to be solid. After the severe downturn during the financial crisis a slow and steady recovery has occurred.

On the domestic front, economic growth is improving, employment growth has been very strong, inflation is well contained and Federal budget appears to be on a path towards a surplus. The strength in the Australian economy appears to be reasonably broadly based with both the mining and the non-mining sectors performing well and assisted by a significant increase in infrastructure expenditure.

The Australian economy will however face some challenges in the year ahead with the residential property marketing softening, access to credit becoming more difficult and the uncertainties associated with Banking Royal Commission and other major Government led reviews weighing on confidence. A Federal and also major State Elections in the year ahead add to the uncertainty.

At a global level and in particular with Australia's major trading partners there are challenges ahead with the prospects of rising interest, trade tensions and the return of inflation.

In light of the challenges noted and elevated valuations in certain parts of the market (in particular healthcare, technology and certain industrial companies), AUI is conservatively positioned. We believe the portfolio offers an attractive combination of strong dividends and solid prospects for capital appreciation over the medium term.

Charles Goode
Chairman