AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 65th ANNUAL GENERAL MEETING OF THE COMPANY HELD AT 171 COLLINS STREET, MELBOURNE ON WEDNESDAY 16TH OCTOBER 2019 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 $55.8 million compared to $47.8 million in the previous year – an increase of 16.8%.

If special dividends and distributed capital gains received from managed funds in both periods are excluded, profit increased 6.8% to $49.0 million. This year special dividends and distributed capital gains totalled $6,806,000 after tax compared to $1,927,000 in the previous year.

The weighted average number of ordinary shares on issue for the year was 124.2 million as against 123.9 million in the previous year, an increase of 0.3%.

Earnings per share was 44.9 cents, compared to 38.6 cents for the previous year, an increase of 16.3%. Excluding special dividends and capital gains distributions received, earnings per share was 39.4 cents, compared to 37.0 cents for the previous year, an increase of 6.5%.

The final dividend for the year ending 30 June 2019 is 19.0 cents per share fully franked which, with the interim dividend of 17.0 cents per share fully franked, makes a total dividend for the year of 36 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 26 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 those 26 years.

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

Our Management Expense Ratio has ranged around 0.09 – 0.10% over the last three years, with increases in the latest year arising from insurance costs and the new ASIC Cost Levy.

We have appointed Mr. James Pollard as an Assistant Company Secretary to provide greater depth of operating capability for the Company. Depending on the average market value of the portfolio this year, with these additional employment and office costs we expect our Management Expense Ratio to be around 0.11% which is still low compared to our competitors.

Bank borrowing facilities were $150 million, drawn as to $100 million at the end of the financial year (last year $150 million, drawn as to $130 million) amounting to around 7.5% of the market value of the investment portfolio. Cash on hand, cash on deposit and net short term receivables were $96 million, or 7.2% of the investment portfolio at market values (last year $39 million, or 3.1%).

Annual interest expense was covered 13.5 times by investment income.

The net asset backing per share after provision for the final dividend and before estimated tax on unrealised gains was $9.66 at 30 June 2019, compared to $9.02 at 30 June 2018, a rise of 7.1%.

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:

Continued Over

To 30 June 2019	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	11.2	9.5	11.6
3 Years	13.6	13.0	12.9
5 Years	7.5	7.0	8.9
10 Years	9.4	8.9	10.0

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%.

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 2019 was a rise of 13.4% compared to a rise of 13.1% in the S&P/ASX 200 Franking Credit Adjusted Total Return Index.

The Company's relative performance for the year was assisted by overweight allocations to Rio Tinto and Infrastructure stocks, but was held back by the underweight allocation to the strong Property Trust and Gold sectors. The Company continues to avoid what appears to us as very highly valued technology stocks, many of which are yet to earn profits. We do hold profitable established companies with strong franchises, such as Seek and Carsales.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 37 companies. The Annual Report provides a list of the shareholdings at 30 June 2019 and 30 June 2018; 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 as at 30 June 2019.

The largest investments in terms of market value at balance date were Commonwealth Bank, CSL, Westpac, ANZ Bank, Transurban, Rio Tinto, BHP, Woodside and DUI. These nine investments at 30 June 2019 comprised 55% of the portfolio and our twenty-five largest investments comprised 85% of the portfolio.

At 30 June 2019 the main sectors of the portfolio were Banks and other Financials 33%, Mining and Energy 22%, Infrastructure and Transport 14%, Consumer 13% and Healthcare 10%. Other investments were 1% and cash on hand was 7%.

Turnover of the portfolio for the year was 12%.

Since the end of the financial year, we have increased our holdings in Link Administration Holdings, Woodside Petroleum, Transurban Group and Origin Energy and added Reece and Napier Port Holdings to our portfolio. We have sold our holding in oOh!Media and sold part of our holdings in Oil Search, Lendlease and IDP Education.

At 30 September the composition of our portfolio was broadly Banks and other Financials 35%, Mining and Energy 19%, Infrastructure and Transport 14%, Consumer 14% and Healthcare 11%. Other investments were 2% and cash on hand was 5%. Borrowings facilities were $150 million, drawn as to $90 million, or 7% 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 on net unrealised gains and losses, and after allowing for the final dividend was $9.66 at 30 June 2019 and $9.92 at 30 September 2019.

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 2019 was $8.19 per share and at 30 September 2019 was $8.41.

Outlook:

Last year in the Outlook section of the Chairman's address we said, *"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".*

Continued Over

During the year we had sales of $164 million and purchases of $108 million, and reduced our borrowings by $30 million.

As it happens we reduced our portfolio investments too early but were pleased that our performance was in line with the ASX 200 Index.

Looking to the year ahead we remain cautious and somewhat perplexed by the current level of the share market. We seek value and strong franchises and on the whole avoid small cap stocks, start-ups and technology companies.

We see the market as selling on high price earnings ratios and with the prospect of limited growth in earnings. On the other hand interest rates are low and are likely to remain low for the foreseeable future. This means that the alternative to the share market of holding funds in interest bearing deposits is not attractive unless viewed as a temporary holding pen.

We are concerned with the global outlook and in particular the US/China trade issues; Brexit; North Korea; the Middle East; and the sluggish EU economies.

Also with low interest rates worldwide and budget deficits the authorities are not in great shape to respond to an ill-wind that could lead to a recession.

A number of old market sayings come to our mind and add to our confusion. There is the rule of 20, that is the price earnings ratio and the inflation rate add up to 20, which with low inflation supports our current high price earnings ratios.

There is the reminder that markets have cycles and that we are in a mature bull market.
Technology stocks are, in our view, high in price and many of these are not yet earning profits let alone paying dividends. We are reminded that in a mining bubble many a good mineral resource has been killed by drilling a hole. We wonder whether profits and perhaps a dividend will bring a similar fate to some of our high tech stocks.

We are therefore cautious and as value investors in unfamiliar territory, however we have selected a number of companies in which we would like to invest should there be a market retreat. In the interim we will, in the main, be holding our existing portfolio and hopefully see patience as a virtue.

Charles Goode
Chairman