AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

ABN 37 004 268 679

CHAIRMAN'S ADDRESS

DELIVERED BY MR CHARLES GOODE AT THE 67th ANNUAL GENERAL MEETING OF THE COMPANY HELD BY AUDIO AND SLIDE WEBCAST ON WEDNESDAY 13TH OCTOBER 2021 AT 11.00 AM

Welcome to this year's Annual General Meeting.

For the financial year ended 30 June 2021, the Company's operating profit after income tax, which excludes net realised investment gains, was $40.5 million compared to $41.1 million in the previous year – a decrease of 1.6%.

If special dividends in both periods are excluded, profit decreased 17.5% to $33 million. This year, special dividends totalled $7,456,000 after tax compared to $1,103,000 in the previous year.

Excluding special dividends received, the Company's revenue fell 14.6% on last year. The Company's investment portfolio has continued to be affected by the COVID-19 pandemic during the financial year. Revenue has been reduced by the fall in dividend and distribution income from the Company's investments, particularly in the first half of the financial year.

The weighted average number of ordinary shares on issue for the year was 124.8 million as against 124.5 million in the previous year, an increase of 0.3%.

Earnings per share was 32.5 cents, compared to 33.1 cents for the previous year, a decrease of 1.8%. Excluding special dividends received, earnings per share was 26.5 cents compared to 32.2 cents for the previous year, a decrease of 17.7%.

The final dividend for the year ending 30 June 2021 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, unchanged from last year. The Company has maintained or increased its dividend paid per share every year since 1994.

The Directors have decided to maintain the final dividend even though total dividends for year ended 30 June 2021 are not covered by earnings in the year. There are sufficient accumulated retained earnings and franking credits to draw on to cover the final dividend payment for the year ended 30 June 2021 on a fully franked basis.

The Company's operating expenses (excluding borrowing costs) were equivalent to 0.11% of the average market value of the portfolio compared to 0.12% in the previous year.

Bank borrowing facilities were $150 million, drawn as to $135 million at the end of the financial year (last year $150 million, drawn as to $85 million). Gross debt as a proportion of the portfolio including cash was 9.4% (last year 7.4%). Cash on hand, cash deposits and net short-term receivables were $9.5 million or 0.7% of the investment portfolio at market values (last year $20.8 million, 1.8%). Net debt as a proportion of the portfolio excluding cash was 8.8% (last year 5.7%).

Annual interest expense was covered 19.5 times by investment income (last year 14.8 times).

The net asset backing per share after provision for the final dividend and before estimated tax on unrealised gains was $10.27 at 30 June 2021, compared to $8.40 at 30 June 2020, a rise of 22.3%.

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 shown on the slide.

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To 30 June 2021	AUI Net Asset Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P ASX 200 Accumulation Index % p.a.
1 Year	26.9	31.7	27.8
3 Years	8.5	10.0	9.6
5 Years	11.0	11.9	11.2
10 Years	8.2	9.3	9.3

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 paid to shareholders (for shareholders who can fully utilise them), the Company's accumulation return for the year to 30 June 2021 was a rise of 29.1%, in line with the rise of 29.1% in the S&P/ASX 200 franking credit adjusted return.

The Company's relative performance for the year was assisted by our investments in Washington H Soul Pattinson, Reece and Rio Tinto, and underweight holdings in the underperforming utilities sector.

Relative performance was held back by overweight holdings in Transurban, Atlas Arteria and CSL and an underweight allocation to the strong gold sector.

We are invested in CSL, Seek and Carsales but are generally light on technology stocks partly due to our difficulty in justifying their valuations, the lack of profits and dividends for many of these companies, their short history as listed companies and our view that better value is found in the international technology companies. As the name of our Company indicates, we focus on Australian companies.

We are a value investor and the value sector of the market has in recent years lagged the growth sector by a fair margin. Those shareholders who wish to participate in the technology sector should consider doing so outside their investment in AUI and should consider the international market.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 43 companies. The Annual Report provides a list of the shareholdings at 30 June 2021 and 30 June 2020; 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 2021.

The largest 25 equity investments comprised 86.9% of the portfolio and the details are set out on page 5 of the Annual Report.

At 30 June 2021 the main sectors of the portfolio were Banks and other Financials 32%, Mining and Energy 20%, Consumer 19%, Infrastructure and Transport 13% and Healthcare 12%. Other investments were 3% and cash on hand was 1%.

Since the end of the financial year, we have invested in Goodman Group increased our holdings in Worley, Northern Star Resources, Tabcorp Holdings, Ramsay Healthcare and participated in the Transurban capital raising. We have sold our holdings in Santos and Napier Port and reduced our holdings in Aurizon, Washington Soul Pattinson and Invocare.

At 30 September the composition of our portfolio was broadly Banks and other Financials 33%, Consumer 19%, Mining and Energy 18%, Infrastructure and Transport 13% and Healthcare 13%. Other investments were 3% and cash on hand was 1%. Borrowings facilities were $170 million, drawn as to $165 million with net debt as a proportion of the portfolio excluding cash being 10%.

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 $10.27 at 30 June 2021 and $10.43 at 30 September 2021

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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 2021 was $8.58 per share and at 30 September 2021 was $8.75.

<u>OUTLOOK:</u>

The share market has had a good rise over the last twelve months and our portfolio has participated in that rise.

The year has benefited from quantitative easing, low interest rates and unprecedented Government expenditure to cushion the impact of COVID-19, and the associated lockdowns, on the economy.

We see four broad risks to the continued rise in the share market. Firstly, a new variant of COVID-19 closing down the economy. Secondly, rising international tensions in the East Asia / pacific region. Thirdly, an investor frenzy developing in the high technology sector of the market leading it to be significantly over-valued and leading to a correction. Fourthly, the economies of the world entering into a period of stagflation.

Stagflation is when we experience high inflation and weak growth. This is generally considered to be caused by a supply shortage. The argument then goes on that supply shortages mean higher input prices to businesses which then respond by cutting output or raising their prices. Higher prices squeeze households and lead to stronger demands for higher wages which in turn raise input costs and so the circle goes on.

We entered the current period with weak productivity growth prior to COVID-19 and a lack of a zest for reform. We are now in danger of higher input prices from rising energy prices, higher shipping costs, supply disruptions as we are seeing in semiconductors, skill shortages in labour arising from restrictions on immigration and increased costs from environmental considerations compliance requirements and increased regulations. Stagflation therefore arises as a real risk.

The impact of climate change and ESG (environment, society and governance) is receiving more attention in the investment community. Companies are increasingly providing shareholders with environmental reports; scenario plans of how various climate conditions could impact their performance; commitments to emission reduction targets; and the inclusion of environmental key performance indicators in their remuneration criteria. Shareholders are putting forward resolutions to focus the Board's attention on climate change and are challenging some companies as to whether they should continue to be members of their industry associations, where that association is not adequately embracing climate change.

We are in the investor camp that engages in discussion with companies on their climate policies and actions rather than sell our shares to a shareholder who is presumably less concerned on such issues. We are in the "engage rather than exit" category of investor.

Our portfolio reflects the concentration of the Australian share market on the banking and financial sector, which provides good dividends but limited growth prospects and in the year ahead will benefit from improving economic conditions. The mining and energy sector is also one of concentration in the Australian market, and while inherently cyclical it is currently experiencing a period of increasing demand and limited new supply, giving rise to high [profits and dividends.

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We find it difficult to judge the outlook for the year ahead. We anticipate a reasonably strong recovery in the economy as high levels of vaccinations allow life to return to something like normal. We also expect the moderation of the current policy of low interest rates and high government expenditure to take place over many years. We expect there to be improved earnings and broadly a restoration of the former levels of dividends. What we find difficult to assess is the extent to which this is anticipated in the current share prices.

We will stay fully invested and we consider the risks are partly reduced by our investments being in leading companies and having the portfolio spread over 40 or 50 companies operating in a variety of industries. We have maintained our fully franked dividend over the last two years by drawing on retained earnings from earlier years. For the year ahead, we expect to maintain our dividend without drawing on retained earnings of previous years.

Charles Goode
Chairman