AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

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CHAIRMAN'S ADDRESS

Delivered by Mr Charles Goode at the 68th Annual General Meeting of the Company, held at Level 32, 360 Collins Street and by audio webcast on Wednesday 18th October 2022 at 11.00am.

For the financial year ended 30 June 2022, the Company's operating profit after income tax was $72 million compared to $40.5 million in the previous year – an increase of 78%. If special dividends in both periods are excluded, profit decreased 18% to $33 million. This year, special dividends totalled $20.9 million and were received from BHP, Rio Tinto and a demerger dividend from Tabcorp following the separation of The Lottery Corporation.

During the first half of the 2022 financial year, the Company's portfolio benefited from an environment of low interest rates, financial stimulus and the reopening of economies following COVID-induced shutdown. However, during the second half of the year headwinds emerged including geopolitical tensions, volatility in energy markets, and rising inflation and interest rates. The effects of these challenges were seen in the later part of the financial year throughout the portfolio and financial markets.

The final dividend for the year ending 30 June 2022 is 20 cents per share fully franked which, with the interim dividend of 17 cents per share fully franked, makes a total dividend for the year of 37 cents per share fully franked, a one cent increase from last year. AUI has maintained or increased its dividend paid per share every year since 1994.

AUI's operating expenses (excluding borrowing costs) were equivalent to 0.10% of the average market value of the portfolio, compared to 0.11% in the previous year.

Bank borrowing facilities were $170 million, drawn as to $167.5 million at the end of the financial year. The additional borrowings drawn were used to further invest in the investment portfolio. Net debt as a proportion of the portfolio excluding cash was 11.3%, which is within our historical range of 10 – 12%.

The net asset backing per share after provision for the final dividend and before estimated tax on unrealised gains was $9.50 at 30 June 2022, compared to $10.27 at 30 June 2021, a fall 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 shown on the slide.

	AUI NTA Backing Accumulation % p.a.	AUI Share Price Accumulation % p.a.	S&P/ASX 200 Accumulation Index % p.a.
1 year	(4.0)	(4.3)	(6.5)
3 years	3.3	5.1	3.3
5 years	6.5	7.2	6.8
10 years	8.8	10.0	9.3

Including the benefit of franking credits for shareholders who can fully utilise them, the Company's accumulation return for the year to 30 June 2022 was a fall of 2.6%, compared to a fall of 5.1% in the S&P/ASX 200 accumulation franking credit adjusted return.

The Company's relative performance for the year was assisted by overweight allocations to Atlas Arteria, Worley and Challenger, and underweight allocation to the underperforming technology sector.

Relative performance was held back by overweight holdings in Washington Soul Pattinson and Link, underweight holding in Macquarie, and overweight allocation to the underperforming consumer discretionary sector.

The portfolio of the Company is invested in Australian equities and at balance date was spread over 44 companies. The Annual Report provides a full list of the shareholdings at 30 June 2022.

At 30 June 2022 the main sectors of the portfolio were Banks and other Financials 32%, Mining and Energy 20%, Consumer 19%, Infrastructure and Industrials 13% and Healthcare 12%. Other investments were 3% and cash on hand was 1%.

Since the end of the financial year, we have increased our holdings in News Corporation and Macquarie and we participated in the ANZ Bank and Atlas Arteria capital raisings. We have reduced our holdings in Latitude, Lendlease and Orica.

At 30 September the composition of our portfolio was broadly Banks and other Financials 31%, Mining and Energy 21%, Consumer 19%, Healthcare 13% and Infrastructure and Industrials 12%. Other investments were 2% and cash on hand was 2%.

We have increased our borrowing facilities since 30 June to $195 million, currently drawn as to $175 million. Additional capacity was added to our borrowing facilities to provide liquidity. At 30 September, net debt as a proportion of the portfolio excluding cash was 12%.

At the end of September, we completed the 2022 Share Purchase Plan, raising $6.9 million. These funds will be used to increase the liquidity of the Company and to further invest in the Company's equities portfolio. On behalf of the Board, we thank shareholders for their participation and continued support of AUI.

OUTLOOK:

At last year's Annual Meeting, we stated, and I quote:

"We see four broad risks to the continued rise in the share markets. 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 over-valued and leading to a correction. Fourthly, the economies of the world entering into a period of stagflation."

Unfortunately, each of these broad risks has grown in importance during the year.

Also at last year's meeting, we emphasised the danger of stagflation, and stated, and I quote:

"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 restriction on immigration and increased costs from environmental considerations, compliance requirements and increased regulations. Stagflation therefore arises as a real risk."

It now appears that we are in a period of stagflation.

During the last few years, we have been experiencing a period of budget deficits, quantitative easing, and embedded low interest rates all of which have contributed to "asset inflation".

We have been experiencing supply shortages from COVID-19 and the Russian/Ukraine war and a considerable reduction in the impact of China exporting deflation to the world through the supply of lower priced manufactured goods. All these factors have contributed to our current "consumer inflation".

We expect the supply shortage issues, except perhaps in energy, to largely be resolved over time; the Russian/Ukraine war to hopefully end sometime; and therefore, inflation from these two causes to be transitory. The higher prices in food and energy supplies can be expected to persist for a longer time. The real danger is that with full employment, there will be higher wages leading to higher prices and then in turn to higher wages and this circle may give rise to the public expecting and anticipating continuing inflation.

The policy response is one of budgetary restraint, quantitative tightening and higher interest rates which can be expected to halt "asset inflation" and curb "consumer inflation".

We are currently in a hesitant and nervous environment, and we find it difficult to be optimistic for the year ahead although on balance we think we will muddle through. It may well be a "Rip Van Winkle" year for investments.

We will remain fully invested and we consider the Company holds a share portfolio of quality companies from which we expect a broadly steady dividend income.

Charles Goode
Chairman