

# HYPERION FLAGSHIP INVESTMENTS LTD

## ANNUAL GENERAL MEETING

Friday 13 November 2009

### CHAIRMAN'S ADDRESS

Ladies and gentlemen, on behalf of the board of Hyperion Flagship Investments Ltd, I warmly welcome you to the 12<sup>th</sup> Annual General Meeting of the Company.

#### **Overview:**

It is fair to say that 2008-09 was an interesting and challenging year for anyone managing an Australian Equities portfolio. The Australian market was not immune from the turmoil that engulfed financial markets around the world. We saw significant volatility in our Stock Market with the All Ordinaries Index declining by nearly 40% between the end of June 2008 and February this year and then recovering by nearly 24% by the end of June 2009.

Much has been written about the global financial crisis and I don't propose to dwell on it in this address. The worst does appear to be over, confidence is emerging and there are encouraging signs that a sustainable economic recovery is in progress which bodes well for our market in the future - but there are no guarantees and risks are ignored at peril.

We have always had faith in the underlying strength of the Australian economy and a belief that good companies will always rise above the market noise. Our belief has generally been rewarded and that has been positive for our shareholders. We are confident that Australia is well-positioned to benefit from the pickup in the global economy and our portfolio stands to benefit accordingly.

#### **The 2008-09 Result:**

It is somewhat ironic to claim that a loss is a good result or that a negative portfolio return is actually an excellent result, such as 2008-09.

Our portfolio returned a negative 4.2% compared with a decline in the All Ordinaries Index of 26% for the financial year. Comparatively, a great result and well ahead of most competitors.

While we reported a loss of \$0.654 million for the year, we did realise some losses from the sale of under-performing stocks to make room for others that met our strict investment criteria and which had excellent longer term prospects.

We believe the outlook for 2009-10 is quite positive with the Portfolio returning 24.8% for the 4 months to 31 October.

**Our Manager:**

Hyperion Asset Management Ltd has been our fund manager since our inception. Their performance has been outstanding, consistently being rated at the top of league tables of comparable managers over virtually every time period. Hyperion Asset Management recently received AFMA's 2009 Golden Calf Award for the best performing boutique fund manager in Australia, something we have recognised for many years.

The credit for this must go to Dr Manny Pohl and the great team of investment professionals he has built up in the company. Their fundamental investment philosophy has been tried and tested and consistently applied. It is able to look through market volatility and noise and it delivers for our shareholders.

It is also worth noting that our investment manager is paid solely on performance. Because of the negative portfolio return in the past year or so, the manager has not been paid a management fee in 2008-09. This is likely to change in 2009-10 as the positive increase in the All Ordinaries Index and our portfolio, if sustained, will see a significant fee accrued and payable in the coming year.

Of course, the accrual of management fees payable simply means that shareholders have seen very positive returns on the portfolio and improvements in the share price.

**Dividend Policy:**

The board has again adopted a conservative policy in regard to dividends having regard for the uncertainty surrounding the global financial crisis and the emerging economic recovery.

Nevertheless, a total dividend payable of 8.5 cents per share, fully franked, is a healthy return. The favourable tax treatment of Listed Investment Companies also provides a deduction of up to 6.07 cents per share depending on the status of the individual taxpayer.

I can assure shareholders that the board is very mindful of our longer term objective of providing a return to shareholders by way of dividend flows, in excess of the rate of inflation.

It is also worth noting that the dividend yield on current share price is still a healthy 6% with potential added advantage of the LIC tax deduction.

**Share Price:**

The board has continued the company's share buyback scheme effective from 10 July 2009. The scheme has been extremely valuable in providing an avenue for shareholders wishing to sell, to do so in an orderly and timely way.

While we would prefer that the share price better reflected both the underlying value of the assets as reflected in the NAV and the potential excess returns generated by our fund manager, we are comfortable that it is moving in the right direction.

The board is also considering some improvements to our communication strategies to create a greater awareness of the company and its performance which we hope will contribute to a better understanding of the company in the broader community.

### **Board Changes:**

In May, the board appointed Mr Patrick Corrigan as an additional board member. Pat has had a long and successful career primarily in the transport sector and brings a wealth of corporate experience and maturity to the board. We look forward to his continuing contribution and insight in the years ahead.

In October last, Dominic McGann was appointed to the board to fill a vacancy following the decision by Justine Hickey to step down. Dominic is a partner in the legal firm, McCullough Robertson, with considerable experience in the corporate and commercial areas of law. Dominic's experience and legal background will be invaluable to the board going forward.

In June, longstanding board member and my predecessor as Chairman, Steven Wilson stepped down from the board. Steve was one of the driving forces behind setting up the company and his passionate leadership and wise counsel in his 12 years on the board, including 9 years as Chairman, has been very much appreciated by all of us. He has made an outstanding contribution to the company and its success.

In October, Justine Hickey stepped down from the board and was replaced by Dominic McGann. In the 3 years that Justine has been on the board, she has been a diligent, thoughtful and supportive board member. Her work as Chair of the Audit and Compliance Committee during some difficult times has at times been time consuming but invaluable and I have really appreciated her time on the board and her particular contribution to governance issues.

I welcome Pat and Dominic and wish both Steve and Justine all the very best in the future.

### **Concluding Remarks:**

It has been a difficult period but we are hopeful that the worst of the economic difficulties are behind us and there is a much more positive outlook going forward.

We have appreciated the support of shareholders during these difficult times and we look forward to your continued support in the year ahead.