99 080 135 913

Chairman's Address – Annual General Meeting

3 November 2017

Ladies and Gentlemen, I welcome you to the 20th Annual General Meeting of our Company.

The 2016/17 financial year.

In spite of the political turmoil during the year, the Australian share market produced a reasonable return over the period with the All Ordinaries Index rising by 8.5%. The past financial year was very much a year of two halves as growth stocks underperformed during the first half of the year when (political) uncertainty caused future growth to be heavily discounted.

This was reversed over the course of the latter part of the financial year as discerning investors paid up for quality growth companies once again. However, it can be said, that large cap stocks have dominated active share returns in the market during the year with small caps under-performing.

This shift to large cap companies as well as the strong performance from the Materials sector, has meant that the portfolio marginally under-performed the market with an 8.0% return. At a stock level, the top five performing stocks over the past year were Whitehaven Coal(+167%), A2 Milk(+115%), Bluescope Steel(+107%), Qantas(+102%) and Sims Metal(+94%).

The only stock in this list that meets our definition of a high-quality growth company is A2 Milk, a company we added to the portfolio in January 2017 capturing the majority of its performance for the year. The other businesses in this list do not have a history of delivering sustainable, consistent earnings growth over the long-term and in our view are unlikely to be in this list over a longer time horizon.

The Net Tangible Asset (NTA) per share of the Company increased by 0.6% in 2016/17, after paying dividends of 7.25 cents per share or 4.0% of the 2017 NTA.

The After Tax Profit of the Company (before the performance fee) increased by 1.5%.

Although revenue for the year decreased slightly (0.2%), overheads decreased before performance fee by 22.8%. Net increase in Total Assets which includes fair value of investments, cash and dividends receivable was 2.0%.

THE MARKET OUTLOOK

The first six months of the financial year was a very unusual period where pretty much everything we stood for, was working against us. A recent report published by Macquarie Bank indicated that in 2016 active management faced headwinds resulting in returns being down in the first quartile.

Moreover, the moves were relatively large in standard deviation terms, indicating to us that the market was at an inflection point at the end of 2016. This proved to be the case as stock selection and quality factors enabled us to perform against the broader market once again.

Over time we believe we can drive returns through stock selection and this has been the case in 2017 with normality returning to the market. Furthermore, we are comfortable with the long-term fundamental drivers of return in our portfolio, and have maintained our positioning despite considerable market pressure.

In our view, companies with strong market positions, strong balance sheets and good management, will continue to perform well and reward patient investors, although we expect market returns to be modest again in the coming year.

DIVIDEND

Notwithstanding the excellent performance of our investments, the Board has decided to adopt a conservative approach and approve a final dividend for the year of 3.75 cents per share. It represents an overall dividend for the year of 7.25 cents per share, fully franked.

There is no LIC attributable capital gains tax deduction available again this year, however there is a LIC attributable amount attached to future dividends, refer Note 15(d).

THE INVESTMENT MANAGEMENT TEAM

I particularly want to record my appreciation and that of the Board as a whole, to our Investment Manager led by Dr Manny Pohl and his team of professionals at E C Pohl & Co. In only four of the past 19 years, has the Company's portfolio failed to outperform – and in most cases, comprehensively – the performance of the All Ordinaries Index. Our continuing success could not have been achieved without the outstanding contribution of these very committed individuals.

THE BOARD

In a year of transition from our previous Chairman, Mr Henry Smerdon AM, I particularly want to thank my fellow Board members for their support and input throughout the past year.

In terms of Henry, while he stepped down as Chairman in November 2016, his legacy is to have left the Company in excellent health and a deep and established culture of high performance by the Investment Manager and the Board.

Separately, I would like to acknowledge our Company Secretary, Mr Brian Jones, whose efforts have allowed the Board to complete its function efficiently and expeditiously (and, while they have otherwise attended all meetings, agreed to act as alternate to Ms Sophie Mitchell and myself).

In conclusion, I want to thank Shareholders most sincerely, for their on-going support and look forward to another good year ahead.

Dominic McGann
Chairman