



## **ACTING CHAIR'S ADDRESS**

Ladies and gentlemen, my fellow Directors and I welcome you to the 15<sup>th</sup> Annual General Meeting of our Company. Unfortunately our Chair, Mr Henry Smerdon, is overseas and is not able to be with us today. My name is Sophie Mitchell and I am Chair of the Audit and Risk Committee and Acting Chair for this meeting except, of course, for Resolution 3.

It has been a year of significant change in the life of the Company which has culminated in Shareholders being asked to approve at this meeting:

- ◆ a novation of the Management Services Agreement with Hyperion Asset Management Limited to Hyperion Principal Investments Pty Ltd, a company associated with our Managing Director, Manny Pohl; and
- ◆ a change of name of the Company to Flagship Investments Limited.

The Board has taken the view based on advice received, that these resolutions require Shareholder approval and that the resolutions need to be considered by Shareholders as early as practicable, hence the change of date and time for this AGM. Unfortunately one of the consequences of the change has been that our Chair was not able to alter long standing arrangements for travel overseas at this time to enable him to be at this meeting.

The background for the changes proposed has already been documented for Shareholders. From your Board's perspective, Manny has always been our day to day fund manager while he was at Hyperion Asset Management Limited. The new arrangements simply reflect the fact that he has established his own investment management business and a number of his clients have already moved their investment management services to Manny.



The Board's view is that the novation of the Management Services Agreement will not result in any significant change to the costs and benefits of the existing arrangement with Hyperion Asset Management Limited. In fact, it will enable Manny as our investment manager to have more flexibility to invest in smaller companies that have been a feature of Manny's very successful investment philosophy over the years. As Hyperion Asset Management Limited grew, it had become more difficult to accommodate the small cap sector within the investment philosophy of the Company.

The change of name to Flagship Investments Limited is a natural outcome of the new arrangements and will provide some "clear air" for both Hyperion Asset Management Limited and our Company in the future to continue to do what they do so well.

In relation to Resolution 4, your Directors, other than Manny Pohl who is excluded because of his interest in the outcome, support the recommendations outlined in the resolution.

All Directors support the recommendation in Resolution 5.

**Year in Review:**

There have been many words written about the state of the global economy and the continuing uncertainty and fragility with stock markets around the globe. There is no doubt that there is a level of frustration and concern within financial markets about the seeming lack of long term solutions to the fundamental problems that have to be confronted. Volatility remains an issue.

While there are some sound reasons and logic to be optimistic about the Australian market, this is not yet reflected in the overall performance of our equity markets.



We believe that sound economic fundamentals will ultimately prevail in the Australian context – but one needs to have a healthy dose of patience.

I don't intend to add too many more words to the millions that have already been written except to say that we have been and will continue to be in good hands with Manny Pohl and his team.

### **Our Investment Performance:**

The portfolio return for the year before taxes, fees and charges was a negative 4.9%. This compares to the decline in the All Ordinaries Index for the same period of 11.3%. The performance was quite reasonable in a relative sense, but clearly the Board would have preferred a positive return.

The Board is of the view that the change in the investment arrangements will enable our Managing Director to continue to perform at a high level.

### **Our Profitability:**

Our net profit before income tax was \$1 million compared with \$717,000 in the previous financial year. In the previous financial year, a loss of \$357,000 arose on the sale of financial assets which affected the level of profitability in that year.

Our dividend income for the year declined marginally to \$1.416 million. Our other expenses also declined marginally to \$422,000.

There was no performance fee payable to the Manager again this year as the benchmark cash rate of return was not achieved.

The Board does not expect any significant change in profitability in our normal operations, although there is some evidence of an upward trend in dividend payments generally as companies report earnings growth.



### Our Dividend Policy:

The 3 cents per share fully franked final dividend approved by the Board provides Shareholders with 6 cents per share fully franked dividend for the year after an interim dividend payment of 3 cents per share.

The Board deeply appreciates that this dividend payment is again less than the level of dividend payments paid in previous years. The Board is currently reviewing possible options to our investment strategy which would generate a higher dividend income flow, without compromising the overall integrity of our investment philosophy.

There is also no LIC attributable capital gains deduction available for Shareholders, a situation likely to prevail for the immediate future.

### Our Share Price:

The share price at 30 June 2012 represents a decline of 18% over the year. The shares continue to trade at a discount to the net asset backing for the shares, which on an unaudited basis was \$1.355 per share at the end of September or \$1.283 per share after taking tax into account.

It is an unfortunate fact that the market has difficulty with appropriately valuing the Company's shares, as is the case with many Listed Investment Companies generally.

The Company has had a share buy-back scheme in place for a number of years now. The scheme was renewed in July for a further 12 months. It has proved a very useful device to facilitate trading in the shares.

During 2011/12, 673,721 shares were acquired under the buy-back scheme.



### **Our Board and Our Managing Director:**

It has been a very challenging and difficult year for the Company and every Director, including the Managing Director have shown great commitment to resolving the challenges at hand. All Board Members look forward to the opportunities and potential that the new investment arrangements present.

I know our Chair Henry Smerdon, would want me to thank all Board Members for their sustained efforts during the year.

### **Concluding Remarks:**

I and my fellow Board Members look forward to continuing to serve the Company and Shareholders to the best of our ability.

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