

# Premium

## Investors Limited

ABN 47 106 259 885

31<sup>st</sup> October 2007

### Chairman's Address to Annual General Meeting

Good Morning. I am Don Sharp and I am the Chairman of Premium Investors. On behalf of the Board, I welcome you to this, our fourth Annual General Meeting. Our first AGM which was held on 10<sup>th</sup> November 2004 was held in Sydney and in the intervening period, we have held our AGM's in Melbourne and Brisbane.

Premium investors has over seven thousand shareholders who live all over Australia and your Board has adopted a policy of rotating AGMs through the East Coast Capitals to allow a broader cross section of our shareholders the opportunity to meet the Board and discuss any issues that may concern them.

Firstly I would like to introduce you to the Premium Board of Directors. From my left we have:

- Mr. Kenneth Stout who is a founding independent director of the Company and also Chairs the Risk and Audit Committee.
- Mr. Tom Collins, who is also an independent director and was appointed to the Board at the AGM held in Melbourne on 26<sup>th</sup> October 2005. Tom is also a member of the Risk and Audit Committee.
- Mr. John Elfverson, who stood down from the position of Managing Director in August of this year, but remains a Director of the Company and has also assumed the role of Company Secretary.

Our resigning external auditors, Pitcher Partners, are also present today to address any questions you may have concerning the accounts for last year.

Your Board has received a nomination of Ernst and Young to be auditors to the Company from Mr Kenneth Stout and recommends that Ernst & Young be appointed as auditors to replace Pitcher Partners. Ernst and Young are also represented here today. Your Board thanks Pitcher Partners for the services that have provided the Company.

Premium Investors has appointed Treasury Group Investment Services, who we call "TIS", to assist in the development of investment strategy and to appoint professional investment managers to implement the agreed strategy and make the individual

investment decisions. Mr. David Cooper is the Managing Director of Treasury Group Limited, the parent of TIS and is also the Chairman of the TIS Investment Committee which was set up to manage the Premium Investors portfolio.

David has kindly agreed to make a presentation to you on the investment strategy being pursued on your behalf and answer any questions you may have. David's presentation will follow the formal business that we need to complete today.

Annual General Meetings are convened to provide shareholders with an opportunity to participate in the business of the Company and to allow them to seek answers to questions they may have.

We have set aside a period at the end of the formal business and presentations in which we will endeavour to answer any questions you have about the Company. We will of course invite your comments on the formal business of this meeting before any resolution is put to this Meeting, but otherwise believe it is better to leave questions to the period set aside to consider them properly.



The formal agenda for today's meeting involves:

- Presenting the accounts for the year ending 30<sup>th</sup> June 2007 to you and inviting your discussion
- The re-election of Mr Tom Collins, who retires by rotation, as a director of the Company
- The appointment of an Auditor to replace Pitcher Partners who have resigned from that role.
- Consideration of the Remuneration Report.

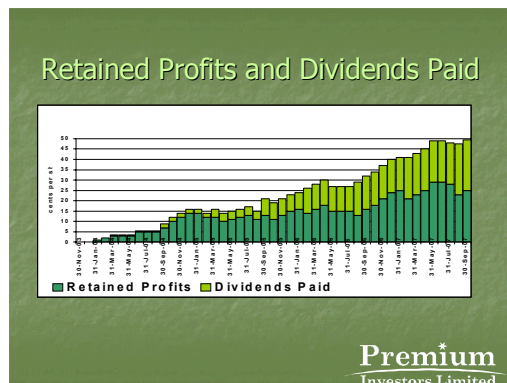
Before we proceed to the formal business, I would like to take the opportunity to review what we have said to shareholders and how we have progressed against the targets we have set ourselves.

Your Board believes that investing in the ordinary shares of listed companies provides the best opportunity for securing a long term income stream through investment. A strategy of investing for absolute returns within a diversified portfolio, coupled with setting aside a part of the earnings in strong market conditions to meet future dividend requirements, is necessary to convert the variable returns from volatile markets to a consistent dividend stream.

Premium Investors has been fortunate in encountering strong investment markets since it first listed on the ASX in November 2003. These conditions have allowed the Company to provide investors with a high level of fully franked dividends, whilst retaining earnings to support dividend payments when market conditions are less favourable.

Our chart shows how the Company has managed its earnings since it floated.

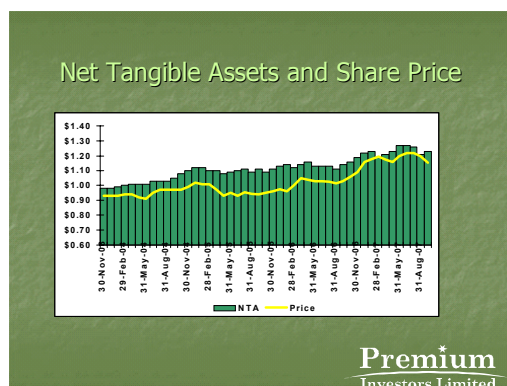
When the Company floated, the net tangible assets were around 98 cents per share. Investors subscribed \$1.00 per share and the costs of setting up and listing the Company absorbed 2 cents per share.



Since that time, the Company has earned around 51 cents per share after payment of operating costs, taxes and making provision for taxes on any unrealized capital gains. Of this amount, 28.5 cents has been paid out to shareholders as fully franked dividends, leaving 22.5 cents to fund future dividends.

The increase in retained earnings per share had resulted in the dividend yield on net tangible assets falling slightly below the level targeted by Directors. We took the opportunity to increase the final dividend for the year ending 30<sup>th</sup> June 2007 to 4.5 cents per share making the dividend during the year 8.5 fully franked.

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The balance in the franking account is an important factor in the Company's ability to pay out future fully franked dividends. At the balance date of 30<sup>th</sup> June 2007, the Franking Credit Balance stood at approximately 5.5 cents per share, enough to fully frank 12.8 cents in further dividend. With the final 2007 dividend paid a further 4.5 cents has been paid, leaving the Company with enough to fully frank a further 8.3 cents in dividends.

Shareholders in any listed entity receive their investment returns in the form of regular dividends and increases in the share price. For Listed Investment Companies, the share price can trade at a discount or premium to the net tangible asset backing per share and a discount can mean that shareholders are not gaining the full value of the investment performance achieved by the Company. Since listing Premium Investors has traded at a discount to net tangible assets after provision is made for tax on unrealized gains.

The discount has been as high as 15%. The Board considers that over the longer term, a discount greater than 10% to post tax net tangible assets per share is unacceptable and

shareholders should be given the opportunity to determine what should be done in these circumstances. I am pleased to advise that the discount has continued to contract, and Premium shares now tend to trade at a discount of less than 5% to NTA.

Premium first listed subject to a management agreement with TIS that provided for TIS to provide all investment management and day to day management of the business under a 25 year contract. Your Board over the past 18 months asked TIS for a review of these arrangements, based on the experience both parties had gained since the original agreement was entered into, and with goodwill on both sides, a comprehensive review of the arrangements has been completed. Whilst the investment management agreement with TIS was fundamental to the concept offered to shareholders, the same could not be said about the provision of day to day management services. Both parties saw benefits in splitting the original agreement into two agreements to allow the issues in each area to be addressed separately.

The Revised Investment Management Agreement now deals only with the investment of the Premium portfolio, with all other matters covered by a new Management Services Agreement.

The Revised Investment Management Agreement preserves the balance of the 25 year term originally granted to TIS, but provides for formal five yearly reviews of performance benchmarks and the approach to investment to ensure that the investment strategy deployed is always appropriate to changing market conditions. The Company and TIS have agreed that the current investment focus on absolute returns should remain for the next five years, but subject to a new benchmark which provides a better alignment between the interests of the investment manager and shareholders.

The investment benchmark was originally set at the Bank Bill Rate plus 2% per annum, and performance fees of 10% of any excess return, after costs and fees, over the amount the fund would have earned at the benchmark rate was payable to TIS as a performance fee. A further 10% of outperformance of the benchmark was payable to the underlying investment managers. The maximum amount that could be paid out in performance fees was subsequently capped at the same amount as the base management fees paid in the particular year.

As part of the negotiations with TIS, the balance between base management fees and performance fees was addressed. TIS agreed to reduce the base fee from 1.0% of average assets in the investment portfolio per year to 0.9% of average assets. Performance fees remain at 10% of any outperformance, but the cap has been raised to 110% of base fees so that the cap on base plus performance fees remains unchanged.

The performance benchmark was also reviewed. What matters to shareholders is achieving earnings after fees which are high enough to meet the dividend payment. Since the dividend for Premium Investors targets 7% of after tax net tangible assets, it seems appropriate that the benchmark for performance fees meets shareholder expectations before any performance fees are payable. The performance benchmark has been set at

7% of net tangible assets per annum after provision for taxes on realized and unrealized gains.

Premium and TIS also took the opportunity to review the provision of supporting day to day management services by TIS to Premium. An exclusive agreement with a term of 25 years did not provide the flexibility both parties were seeking for these arrangements. The outcome of discussions was a new agreement with no fixed term which allows Premium to purchase services from TIS on an item by item basis. Services such as accounting, where Premium's requirements are well known are negotiated on a fixed fee basis whilst other services, where the need is uncertain are negotiated on an hourly basis. Premium Investors are free to negotiate services with TIS or with any other party.

We have also taken the opportunity to review our staffing requirements. Under the original agreement TIS provided the services of a part time Managing Director and a Company Secretary for a fixed annual fee. When the contracts were reviewed in relation to capping the performance fees, it was decided that a full time Managing Director was required. TIS once again supplied the services of the Managing Director under contract.

The Board has decided that it does not require the services of a Managing Director going forward. Accordingly, John Elfverson stood down as Managing Director on 6<sup>th</sup> August 2007 but remains a non executive Director of Premium Investors and has assumed the role of Company Secretary.

The final change to the business of Premium Investors involves myself. I will be resigning as a Director and Chairman of Premium Investors effective on completion of this AGM. The Board has decided that three non executive directors are sufficient to meet the needs of the Company and there is no intention to replace me as a Director. Mr Tom Collins will be assuming the role of Chairman and I leave the Company in safe hands.

The next stage of proceedings today is the formal business of the meeting, after which David Cooper from TIS will present on the investment strategy being pursued on behalf of the Company.



**Don Sharp**  
**Chairman**