

14 November 2019

Annual General Meeting 2019 – Chairman’s Statement

Dear Fellow Shareholders,

For the financial year ended 30 June 2019, the Company recorded an after-tax loss of \$7.5 million which signified the first loss for the Company since its inception. The Company declared 7.25 cents per share of fully franked dividends for the year, maintaining the previous year’s dividend, paid from profit reserves generated during times of stronger performance. Since listing, the Company has declared an aggregate 42.75 cents per share of fully franked dividends.

The Board continues to be mindful of providing shareholders a growing stream of fully franked dividends over the longer term and building profit reserves. Thus, the Company was able to maintain the dividend despite experiencing a period of weaker performance. The profit reserve balance at year end was \$9.65 million.

The Company aims to provide investors genuine long-term concentrated exposure to micro-cap industrial businesses regardless of their liquidity profile. This concentrated long-term approach is reflected by the 10 positions held as at 30 June, three of which have been held for more than five years within the investment portfolio. The portfolio also continues to reflect our belief that the companies held offer strong long-term returns and good value despite their lack of performance over the past year.

The investment portfolio produced a return of –12.51% for the financial year ended 30 June 2019, underperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (‘XSOAI’) which produced a positive return of +1.92%. It proved to be a very difficult year for markets and most micro-cap companies in particular, where there was a significant shift of investor dollars towards a very select group of, in our view, speculative companies. It remains the opinion of the Board that the companies held in the portfolio offer good value.

The investment manager has redoubled efforts to work proactively with the Boards and management teams of all the portfolio companies as part of their continuing due diligence. Given the index unaware approach and the concentrated nature of the portfolio, performance differing to the broader market from time to time will occur. While recognising the first instance of annual negative performance of the portfolio, we do also emphasise that the manager maintains a rigorous investment process focused on capital preservation over the longer term and continues to target capital growth above the benchmark with a lower volatility. We are confident that by maintaining a disciplined approach the portfolio holdings will allow shareholders to look forward to positive performance in the future.

Although the share price started the year trading close to the pre-tax net tangible asset backing (‘NTA’) and continued to trade on average close to NTA for most of the year, a decrease in the share price during the final month of the financial year caused the movement in share price to lag

the portfolio return. The share price closed the financial year at \$0.885 which represented a significant discount of 13.24% to pre-tax NTA.

With regard to NTA, the NTA of the Company fell over the year, with the fall generated from the negative performance of the investment portfolio as well as by the payment of dividends to shareholders and the payment of tax over the course of the year. To reduce dilution for existing shareholders, the Company did not issue any shares at a discount, with the Dividend Reinvestment Plan ('DRP') capital management initiative further supporting this by issuing DRP shares only when the Company is trading at a discount to post-tax NTA.

During FY19, the Company continued to focus on improving the quality and transparency of our investment communications; these initiatives contributed to record shareholder numbers, with 244 new shareholders added to the register. As at 30 June 2019 the Company had 2,139 shareholders which represented a 13% increase from the end of the previous financial year. Generally, a larger shareholder base corresponds to stronger liquidity which correlates to less discount to NTA.

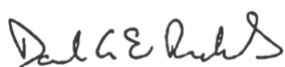
As always, the Board remains committed to managing the capital base of the Company in a manner that provides the most suitable framework for maximising potential shareholder return.

With this in mind, the Board was pleased to announce a one-for-four bonus options issue to eligible shareholders during June 2019. The Board believes that this is a measured way to allow the Company to grow over the next 24 months. In our view, it would allow NAOS Asset Management (the Investment Manager) to take advantage of a number of investment opportunities that have arisen within the micro-cap end of the Australian stock market; whilst not placing undue pressure on the short-term performance and dividend reserves of the Company. In addition, we believe that growing the size of the Company to between \$125 million to \$150 million is optimal as it scales the Company to an appropriate size that lowers fixed costs on a per share basis.

During January the Company announced the appointment of Ms Sarah Williams as an Independent Director. Sarah has over 25 years' experience in executive management, leadership, IT and risk management within the financial services and IT industries. The Company is very fortunate to have such a skilled person join the Board. Sarah provides a major addition to the skills and experience that the Board currently has. Directors increased their holdings over the financial year whilst also taking advantage of the Dividend Reinvestment Plan; and now hold a cumulative 4.06 million shares, continuing to align their interests with those of shareholders.

On behalf of the Board I would like to thank all the staff of the Investment Manager for their continued efforts and dedication throughout the year.

The Board would like to thank all our shareholders for their continued support and we welcome the new shareholders who have joined the Company during the past financial year.



David Rickards

Independent Chairman