

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 \$17.7 million with the second half performance showing a marked improvement over a disappointing first half year. The Company declared dividends over this period totaling 4 cents per share, all of which have been fully franked and declared on a quarterly basis. The Board remains mindful of the need to balance the current share price by providing shareholders with a regular stream of fully franked dividends whilst maintaining profit reserves during times of stronger performance.

The share price closed the financial year at \$0.565 which represented a significant discount to pre-tax net tangible asset backing (NTA) of 19.29%, causing the share price to lag the investment portfolio performance.

To address the discount to NTA, the Board announced an on-market buy-back (Buy-Back Program) during March 2019. As the buy-back of shares by the Company at a discount is accretive to NTA per share, the Board considers the Buy-Back Program to be an effective use of the Company’s capital and in the interests of all shareholders. The total number of shares purchased under the Buy-Back Program was 2,059,777 to 30 June 2019.

The Buy-Back Program complements several other strategic initiatives implemented by the Company in seeking to deliver value to shareholders. These include delivering quarterly dividends and lowering both management fees and other operating expenses of the Company. The Company continued the previously announced policy and did not issue any shares at a discount as the dividend reinvestment plan (DRP) capital management initiative was completed through acquiring shares on-market, thereby eliminating any dilution for existing shareholders.

The investment portfolio produced a return of –13.29% 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%. Given the concentrated industrial nature of the portfolio, performance differing to the broader market will occur from time to time as evidenced during FY19. The Company remains focused on capital preservation and continues to target longterm capital growth above the benchmark index with a lower volatility than that of the wider market.

The Company offers what we believe is the only Listed Investment Company (‘LIC’) that provides a genuine long-term concentrated exposure to small-cap industrial businesses. This concentrated long-term approach is reflected by the 13 positions held as at 30 June 2019,


seven of which have been held since the inception of the investment portfolio in December 2017.

The Board is disappointed that this year the Company has not provided shareholders with satisfactory returns and that the discount to NTA has endured over the financial year.

It has been a very difficult year for most small-cap companies, with the market favouring a select number of specialty companies in the technology sector. The investment management team continues to work proactively with the Boards and management teams of all the portfolio companies and the Board continues to believe that the strategy of focusing on a concentrated investment portfolio, providing a regular stream of fully franked dividends, transparent communications plus aligning the manager and Board with all shareholders of the Company will provide satisfactory returns plus NTA growth over the long term. Reflecting this confidence, Directors' shareholdings increased during the year and now total 1.96 million shares.

On behalf of the Board of Directors 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, including more than 700 new shareholders who joined the Company during the financial year, for their continued support.



Trevor Carroll
Independent Chairman