



**Chairman's address
to the 2023 Annual General Meeting
Thursday 23rd of November 2023**

I'd like to welcome all shareholders to our AGM.

The hallmark of FY23 is that it will be remembered as the year which demonstrated the strong resilience of Microequities' business. Our investing universe is small cap industrial stocks and these endured a very tough bear market in FY23. As a result of these market conditions our performance fee income declined 98% YoY.

Yet, despite the adverse market conditions, our operating profit from recurring revenue increased by 4% and our ratio of operating expenses to recurring revenue reduced from 39.98% to 37.53%. These statistics demonstrate the strong cash controls within the business which underpin its ability to trade profitably and to pay dividends even in very difficult market conditions.

Some of the financial highlights of the FY23 year were:

- Net Profit After Tax of \$5.661m;
- Maintained a strong balance sheet with NTA as of June 30 of \$19.5m;
- Paid fully franked dividends of 1.8c (interim) and 1.5c (final), consistent with the Group dividend policy of paying out between 70% and 100% of the operating profit from investment management.

The two most outstanding features of FY23 were:

- **Our funds materially outperformed their benchmark indices** (eg the Pure Microcap Fund outperformed the Small Ordinaries Index by 18.54% and the Global Value Microcap Fund outperformed the MSCI World Microcap Index in A\$ by 25.08%); and
- **The loyalty of our clients** - Funds Under management (FUM) rose by 7% despite some large distributions and investor numbers fell just 1% despite very poor market sentiment.

The Microequities team remains extremely focused on its two core functions; investment management and providing our clients with outstanding levels of service. Through FY23 our investors rewarded this unwavering focus with their loyalty.

Our portfolio contains an unprecedented level of heavily undervalued stocks and, with the interest rate cycle peaking, our Funds are well positioned for a strong rebound when market conditions improve. The loyalty shown by our shareholders and investors will then be organically rewarded.

I would like to take this opportunity to thank all our clients for the trust they have placed in us; and also to thank our staff who work diligently in delivering the service our clients expect.

Thank you to all our shareholders for your continued support. We look forward to delivering positive investment outcomes and shareholder returns to you.

Leslie Szekely
Non-Executive Chairman

**CEO's address
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I would like to welcome all shareholders to our 2023 AGM. At last year's AGM I noted that we were observing an economic rate cycle that was very familiar to us and quite conventional in terms of economic history. I noted that inflation and rising rates are part of the cyclical nature of demand and credit expansion/contraction cycles that economies go through. This specific cycle has come after a prolonged period of highly anomalous central bank rates making it feel unusual, it is not, we have seen this story before, and undoubtedly will again.

Independently of where rates sit today or tomorrow, our portfolios are designed to deliver long term performance to our fellow clients. To deliver absolute and relative outperformance is the reason we exist and the reason our clients pay us to manage their exposure to the asset class we specialise in. We have done this since 2009 and I'm pleased to report that we have continued to do this over the past 3 years and I would like to particularly highlight our Pure Microcap Fund which has a 1 year return of 19.42% and a three year annual compound return of 13.5%, those numbers have been achieved in the middle of a small cap industrial bear market. Also of particular note is our performance in the Global Value Microcap Fund which has delivered a 16.22% 1 year return against -4.71% for its respective MSCI World Microcap Index (in AUD) benchmark.

These return numbers are important to both our clients and shareholders, because the real magic sauce of funds management businesses is ultimately about returns. Despite the difficult operating environment, as I look towards the future, I'm imbued with confidence. That confidence stems from the quality of our investment portfolios which has never been stronger. In our domestic capital growth Funds (Deep Value and Pure Microcap) 3 investee companies that make up approximately 40% of the portfolios of those strategies are highly likely to double in revenue and earnings over the next 3 years. We expect those assets will significantly revalue over that period and help drive our investment performance and our funds under management. The portfolios across our listed strategies are the best quality portfolios we have ever amassed in the history of Microequities. So, whilst the operating environment is challenging and investors are hesitant to allocate capital into our asset class, I am imbued with confidence.

We note recent M&A activity within our portfolios show control premiums at ranges of 50% to 100% above mark to market prices, highlighting both the pricing dislocation and value unlocking potential within the assets we manage.

Investor sentiment soft

The tentative signs of improving investor sentiment that we called out when we published our FY23 results has not consolidated into a trend. Investor sentiment has been particularly weak over the past 3 months with new investors lacking confidence to deploy capital into our asset class and thereby our products. This has meant client growth has not been achieved, despite our strong investment performance. A phenomenon often observed in equity markets is that precisely when the opportunity set is peaking, investor sentiment is at its weakest.

Business continues to trade profitably

Whilst investor sentiment remains weak, our funds management business continues to trade profitably and generate positive cash flows. We have continued to invest in marketing and sales to convey our core value proposition of delivering strong absolute and relative performance. We continue to deploy and invest in sales and marketing because we fundamentally believe we have a core offering that delivers exceptional value and generates long term wealth for our clients. We will continue to do this. We have several growth initiatives planned for 2H24, with planned raisings across several of our strategies and new product development in the works.

Carlos Gil
Chief Executive Officer

Microequities Asset Management Group Limited

About Microequities (ASX:MAM): Microequities is a boutique value driven Fund manager specialised in exchange listed industrial microcaps and small caps. Established in 2005 as an investment research house, the company expanded into funds management in early 2009 by launching its flagship fund - the Deep Value Fund. Today Microequities manages a number of investment funds and has over \$500m of funds under management. For further information visit www.microequities.com.au

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