

Chairman's update

Geoff Wilson AO



- 17.5%[^] investment portfolio outperformance in FY2020
- 3.0c per share fully franked final dividend, 33.3% increase
- 3.0c per share fully franked special dividend, 33.3% increase
- 71.8% increase in operating profit before tax

In 2020, WAM Microcap continued to deliver shareholders strong risk-adjusted returns. The WAM Microcap investment portfolio outperformed the S&P/ASX Small Ordinaries Accumulation Index by 17.5%[^], increasing 11.8% during the 12-month period while the Index fell 5.7%[^], during a period of heightened volatility for equity markets. This outperformance was achieved with an average cash weighting of 21.9%. The return on the equity portion of the portfolio was 14.8% and the return on the cash portion of the portfolio was 1.0% for the year. Since inception in June 2017, the WAM Microcap investment portfolio has increased 15.9%[^] per annum, outperforming the Index by 10.0%[^] per annum.

The driver of the investment portfolio's performance during the year was the sound stock selection from the investment team. During the period, we invested in 221 individual companies and at 30 June 2020, we held investments in 66 companies.

The Board of Directors have declared a fully franked final dividend of 3.0 cents per share. Together with the fully franked interim dividend of 3.0 cents per share, this brings the fully franked full year dividend to 6.0 cents per share, a 33.3% increase on the prior year. Due to the strong performance of the investment portfolio since inception, the Board also

declared an additional fully franked special dividend of 3.0 cents per share to be paid to shareholders. Since inception in June 2017, WAM Microcap has paid 15.75 cents per share in fully franked dividends to shareholders.

In the year to 30 June 2020, the Company achieved an operating profit before tax of \$14.8 million and an operating profit after tax of \$11.3 million. The operating profit for the year is reflective of the strong investment portfolio performance over the period.

In August 2020, WAM Microcap completed an oversubscribed Share Purchase Plan (SPP) and Placement following overwhelming demand from WAM Microcap shareholders, raising a combined \$88.0 million. The SPP closed on 20 August 2020 and was oversubscribed after raising \$58.7 million, with more than 55% of existing shareholders participating. The Placement raised \$29.3 million and was oversubscribed and subject to scale back.

We would like to thank all WAM Microcap shareholders for your continued support of the Company during the 2020 financial year and hope you are safe and well as we live through the dramatic changes brought about by the coronavirus pandemic. We look forward to providing you with further updates in our next instalment of WAM Vault in November.

Investment portfolio performance and Index returns are before expenses, fees and taxes.

Increase in fully franked final and special dividends

33.3%

Fully franked full year dividend

6.0c

Fully franked special dividend

3.0c

Fully franked final and special dividends

The Board declared a fully franked final dividend of 3.0 cents per share and a fully franked special dividend of 3.0 cents per share. The DRP will operate without a discount for the final and special dividends.

Since inception in June 2017, WAM Microcap has paid 15.75 cents per share in fully franked dividends to shareholders.

Key dividend dates

Ex dividend date	12 October 2020
Record date	13 October 2020
Last election date for DRP	15 October 2020
Payment date	23 October 2020

The Board is committed to paying a stream of fully franked dividends to shareholders, provided the Company has sufficient profits reserves and franking credits and it is within prudent business practices.

The Company's ability to generate franking credits is dependent upon the receipt of franked dividends from investments and the payment of tax on profits.

The Company has a profits reserve of 33.9 cents per share as at 31 July 2020, before the payment of the fully franked final and special dividends, representing 5.7 years dividend coverage.



Lead Portfolio
Manager's
update

Oscar Oberg

We were pleased to deliver strong investment portfolio outperformance during a volatile period for micro-cap companies by rigorously applying our proven investment process.

The 2020 financial year was a dramatic period for Australian equities, underscored by slowing economic growth, bushfire and drought and the coronavirus pandemic. These factors greatly impacted the volatile micro-cap segment of the market. The 2019 September quarter was marked by weaker-than-expected economic growth, rising unemployment and sluggish wage growth, leading the Reserve Bank of Australia to cut the official interest rate for the third time in 2019 to a low of 0.75%. The search for yield led to a mispricing of assets and low rates pushed investors up the risk curve into less liquid securities throughout the December quarter and into the new year. In the 2019 calendar year, the S&P/ASX All Ordinaries Accumulation Index recorded the greatest annual performance since the period of the global financial crisis, while company valuations expanded significantly despite little-to-no-earnings growth in the lead up to the coronavirus pandemic.

Over the March quarter, micro-cap companies underperformed compared to the larger small-cap companies, which is common through periods of extreme volatility. In March, we identified the automotive sector as a potential beneficiary of economies emerging out of the coronavirus crisis given a reluctance for people to use public transport. As our confidence increased around shutdown measures being lifted throughout April and May, a number of sectors such as retail and tourism began to look attractive on a long-term view.

In retail, we increased our exposure to those retailers with a strong online offering such as City Chic Collective (ASX: CCX) and Baby Bunting (ASX: BBN). Our best performer through the June quarter, online marketplace Temple & Webster Group (ASX: TPW) saw revenue grow strongly, with June delivering 130% sales growth compared to the previous corresponding period. Announcements from companies such as Kogan.com (ASX: KGN), Redbubble (ASX: RBL) and Marley Spoon (ASX: MMM) supported our view that coronavirus would accelerate the structural shift towards online shopping.

Given the significant changes to the investment portfolio to adjust to the new environment, and our flexible mandate to increase and decrease cash weightings, we believe the portfolio is well positioned for FY2021.

Investment portfolio performance

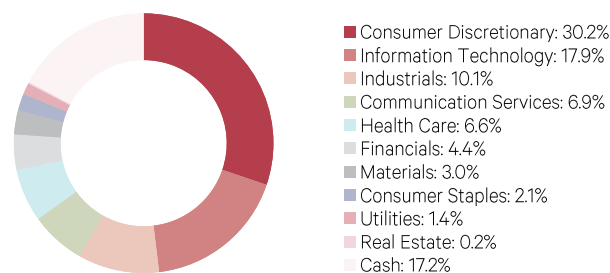
as at 30 June 2020

	3 mths	1 yr	Since inception %pa (Jun-17)
WMI Investment Portfolio	32.9%	11.8%	15.9%
S&P/ASX Small Ordinaries Accumulation Index	23.9%	-5.7%	5.9%
Outperformance	+9.0%	+17.5%	+10.0%

Investment portfolio performance and Index returns are before expenses, fees and taxes.

Portfolio composition by sector

as at 30 June 2020



Top 20 holdings with portfolio weightings

as at 30 June 2020

Code	Company	%
IFM	Infomedia Limited	2.9%
CCX	City Chic Collective Limited	2.6%
TPW	Temple & Webster Group Limited	2.5%
PPE	People Infrastructure Limited	2.5%
VVA	Viva Leisure Limited	2.4%
AMA	AMA Group Limited	2.4%
FCL	FINEOS Corporation Holdings PLC	2.4%
JLG	Johns Lyng Group Limited	2.3%
CAJ	Capitol Health Limited	2.3%
VGL	Vista Group International Limited	2.2%
3PL	3P Learning Limited	2.1%
EVO	Evolve Education Group Limited	2.1%
RBL	Redbubble Limited	2.0%
BBN	Baby Bunting Group Limited	1.9%
MMM	Marley Spoon AG	1.9%
OCL	Objective Corporation Limited	1.9%
UWL	Uniti Group Limited	1.7%
THL NZX	Tourism Holdings Limited	1.6%
TRS	The Reject Shop Limited	1.6%
AQZ	Alliance Aviation Services Limited	1.6%