

# Annual General Meeting Chairman's Address

19 November 2019

## Introduction and welcome

Good afternoon and welcome to the second WAM Microcap Limited Annual General Meeting (AGM). I would firstly like to acknowledge the Gadigal people of the Eora nation and pay my respects to their Elders past and present. I would also like to welcome all our shareholders – thank you for joining us and for your support of WAM Microcap.

I am Geoff Wilson, Chairman of the Board of Directors. I am joined today by my fellow Board member, Kate Thorley. Jacqueline Sullivan is an apology. Scott Whiddett, a representative from our auditor Pitcher Partners, will be available to address any questions relating to the Company's financial statements.

## FY2020 update

WAM Microcap has achieved a strong start to FY2020. Through our continued focus on undervalued growth opportunities in the micro-cap Australian market, the Company has outperformed the S&P/ASX Small Ordinaries Accumulation Index by 16.1%, increasing 18.7% in the financial year to 31 October 2019. In the calendar year to date, WAM Microcap has achieved strong investment portfolio performance of 35.8%, outperforming the Index by 16.0%. As at 31 October 2019, the Company had 28.30 cents per share available in its profits reserve, after the payment of its fully franked FY2019 final dividend of 2.25 cents per share and fully franked special dividend of 2.25 cents per share.

## FY2019 in review

### Investment portfolio performance

Throughout the 2019 financial year, WAM Microcap remained focused on delivering shareholders strong, risk-adjusted returns derived from investments in undervalued micro-cap growth companies with a market capitalisation of less than \$300 million at the time of acquisition.

The investment portfolio increased 7.3% in the 12 months to 30 June 2019, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 5.4%. This outperformance was achieved with an average cash weighting of 24.7% and with less volatility as measured by standard deviation, 12.8% against the Index's 15.2%. The return on the equity portion of the portfolio was 9.1% and the return on the cash portion of the portfolio was 1.8% for the year.

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 195 individual companies and at 30 June we had investments in 79 companies. The largest contributors to the investment portfolio's performance during the period included: leading plus-sized fashion retailer, City Chic Collective (ASX: CCX); global digital retailer of official government ad charitable lotteries, Jumbo Interactive (ASX: JIN); online provider of automotive parts retailing systems, Infomedia (ASX: IFM); wholesaler of cloud-based subscription software licences, Rhipe (ASX: RHP); and workforce management company specialising in contracted labour, People Infrastructure (ASX: PPE).

### Financial results

In 2019, the Company recorded an operating profit before tax of \$8.6 million (2018: \$42.4 million) and an operating profit after tax of \$7.0 million (2018: \$30.7 million). The operating profit for the year is reflective of the strong investment portfolio performance over the period.

### Total shareholder return and share price discount to NTA

The total shareholder return (TSR) for WAM Microcap for the year to 30 June 2019 was impacted by the decline in the share price premium to net tangible asset (NTA) and resulting discount at the end of the period. At as 30 June 2019, the share price discount to NTA was 7.9% (2018: premium of 5.2%). This was offset by the investment portfolio performance, with TSR decreasing 10.5% for the year. This measure does not value the potential benefit of franking

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credits distributed to shareholders through fully franked dividends. On 18 November 2019, the share price premium to NTA was 4.4%.

### **Fully franked dividends**

The Company declared a fully franked final dividend of 2.25 cents per share. Together with the fully franked 2.25 cents per share interim dividend, this brings the fully franked full year dividend to 4.5 cents per share, a 12.5% increase on the prior year.

The Board and the Investment Manager are focused on ensuring the Company maintains the optimal amount of capital for its investment strategy and focus on micro-cap companies. As a result, and due to the strong performance of the investment portfolio since inception, the Board also declared an additional fully franked special dividend of 2.25 cents per share to be paid to shareholders. Since inception, the Company has paid 12.75 cents per share in fully franked dividends to shareholders.

### **Company outlook**

WAM Microcap entered the 2020 financial year with a conservative balance sheet, no debt and a flexible and proven investment approach with the patience and expertise of an experienced investment team. The preservation of shareholder capital is a key focus of our investment process and despite our cautious outlook, we continue to identify and act on opportunities in the market.

### **Public policy and advocacy**

On behalf of our 80,000 shareholders of our six LICs as well as self-funded retirees and low-income earners throughout Australia, we advocated against the inequitable and illogical policy to remove refunds on franked dividend income that was announced on 13 March 2018. We were pleased to see the end of the proposal and thank our shareholders for their support.

### **Shareholder engagement and communication**

Shareholders are the owners of WAM Microcap. Our responsibility is to manage the Company on their behalf and be available to report to them on a regular basis. We encourage all shareholders to meet with us and utilise our proactive approach to keeping them informed. We do this regularly in many ways, including:

- Weekly investor updates from our Lead Portfolio Managers;
- Regular investment insights and market updates;
- Regular roundtables with our shareholders and planners, advisers and their clients;
- Monthly investment updates;
- Semi-annual conference calls on our LICs;
- Semi-annual presentations and lunches across all major Australian cities; and
- Annual and semi-annual profits announcements.

WAM Microcap shareholders are encouraged to use the subscription feature on the Wilson Asset Management website to receive notifications of announcements, investor updates and other important information.

We aim to provide valuable and insightful information to you and welcome all feedback on how we can improve our communication and engagement. Please contact our Head of Corporate Affairs James McNamara on (02) 9247 6755 or email us at [info@wilsonassetmanagement.com.au](mailto:info@wilsonassetmanagement.com.au) with any questions or feedback.

### **Making a difference**

Wilson Asset Management, WAM Microcap's investment manager, is passionate about making a positive difference to our shareholders and the community. In the 2019 financial year the team worked towards this objective in a number of ways.

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We continued our support of Future Generation Australia (ASX: FGX) and Future Generation Global (ASX: FGG), Australia's first philanthropic wealth creation vehicles with the dual purpose of creating shareholder wealth and investing in our future generation. FGX and FGG are actively making a difference with a significant stream of annual investments in high impact charities working to better the lives of young Australians. Wilson Asset Management's team gives ongoing pro bono support to these innovative companies, providing funds management, marketing, shareholder communications, company secretarial, administrative and support functions.

Wilson Asset Management is a signatory to Pledge 1% – a global corporate philanthropy movement that commits to donating 1% of product, 1% of equity, or 1% of employee time to improve communities around the world. We achieve this in a number of ways, including through a program that allows our staff to spend one day each month working in the non-profit sector.

We are proud to provide significant support to various charities. In addition, every Wilson Asset Management team member is given \$10,000 per year to donate as they see fit to any one or multiple charities. All donations are made by the investment manager and not WAM Microcap.

Today, we announced our intention to raise up to \$1 million for Australians affected by drought and bushfires in New South Wales and Queensland. We will match funds donated to the Foundation for Rural and Regional Renewal (FRRR) by our shareholders and supporters. You can visit our website for details.

### **Thank you**

I would like to thank the entire Wilson Asset Management team. Every member of the team has worked tirelessly throughout the year for the shareholders of WAM Microcap. I would also like to thank my fellow Board members for their invaluable contributions to WAM Microcap during another year of strong investment portfolio performance. Finally, on behalf of the Board and Wilson Asset Management, thank you to our 6,800 shareholders for your continued support of WAM Microcap.