



**Chairman's address
to the 2018 Annual General Meeting
Thursday 15 November 2018**

The 2018 financial year has been a milestone year for the company with the listing on the Australian Securities Exchange and welcoming many of our clients as business partners and shareholders. Alignment is core to Microequities' philosophy.

The listing was achieved without the use of underwriters, brokers or expensive professional printers for the prospectus. Almost the entire offer was taken up by existing and potential clients from Microequities existing base. The success of this listing process sheds light on both the level of support we have from our investors and the Company's cost effective approach to doing business.

Some of the highlights of the financial year were:

- Fee earning funds under management increased by +18.4% year-on-year;
- The number of clients increased by +9.1% year-on-year;
- Ongoing operating expenses as a percentage of recurring revenue reduced from 51.6% to 45.1%;
- Operating profit from recurring revenue increased by +61.3% whilst recurring revenue increased +42.0% year-on-year; and
- The Board declared a 1c fully franked dividend consistent with the dividend policy of the Group, which is to pay between 70% and 100% of the operating profit from investment management.

It is noteworthy that Statutory NPAT fell 43.9%. The contrast between the large growth in Operating Profit from Recurring Revenue and the decrease in Statutory NPAT is a direct function of a large reduction in year-on-year Success Fee Income. This largely reflects the reality that the performance of all fund managers is heavily influenced by changing market conditions.

The philosophy of the Company is to run a very lean operation such that it maintains a circa 50% margin on Recurring Revenue. Thus, the Company is positioned to remain profitable even in bear markets and to reap substantial success fees in rising markets.

Your Company is profitable and has a strong balance sheet. Accordingly, and as announced to the market on 30th August, the Company has initiated an on-market share buy back as an important capital management tool to undertake considered, measured and opportunistic share buybacks, should conditions permit.

During the year we launched the Microequities Pure Microcap Value Fund. This fund, which traces back to the microcap heritage of the group, has resonated well with investors.

Since the end of the financial year we have progressed with the plan of broadening the availability of our products beyond the wholesale and sophisticated investor market. We are conscious that penetrating the broader market is a long journey, but it would be remiss not to address this market over time.

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

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

Leslie Szekely
Non-Executive Chairman

**CEO's address
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I'd like to welcome all shareholders to our first AGM as a publicly listed company. As our chairman noted, 2018 saw Microequities complete its IPO and in that process many of our clients become shareholders. I'd like to therefore give a special welcome to our client shareholders, your loyalty and support throughout these many years does not go unnoticed. Whilst we listed on the ASX in April this year, Microequities (Microequities Asset Management Group Ltd) has been a public unlisted company since 2015.

Since our IPO, many of our clients have asked us what are we doing differently now that we are publicly listed? The concise, candid answer is, not much. Your board and management team are resolute of the view that the pathway to creating value for our shareholders is intimately and inherently linked to creating value for our clients. We create value for our clients by allocating capital within favourable risk/reward metrics. We allocate this capital within the context of a long term investment horizon and focus on long term investment outcomes. We are cognisant that the market pricing will diverge from intrinsic valuations over the short to medium term, we seek to opportunistically capitalise on that anomaly, fully aware that over the long term that divergence converges. Most of our investee companies grow over time, their intrinsic value rises and over time that also increases our FUM and generates wealth for both of our customers and shareholders.

So, our focus remains and will always remain on our core competency, allocating long term capital. We are pleased to say that the underlying assets of the Funds we manage continue to augment their intrinsic valuation and it is the underlying earnings growth of our investee companies that will underpin Microequities' long term economic prosperity.

Current Investment climate

No doubt most investors would be aware that last month there was a significant share price fall on world and local equity markets. The fall was further accentuated in the asset classes we manage, microcaps and small caps, with the Emerging Companies Index falling 10.9% and the Australian Small Ordinaries Index falling 9.6%. Whilst our value driven Funds have historically outperformed benchmark indexes in falling markets, and last month was no exception, our marked to market FUM last month was negatively impacted by those falls, and we closed the month of October with aggregate FUM of A\$406m. Whilst many investors might see downward pricing movements in stock exchanges as a worrisome development, to value investors like Microequities, we see them as periods of heightened pricing dislocation and accentuated market inefficiency. In other words, they provide us a greater pool of assets to buy cheaply and engender future wealth creation.

FY19 Growth strategy initiative

At the release of our FY18 results we announced that one of the growth initiatives for FY19 and beyond would be the company's foray into the retail distribution space. I'm pleased to report the management team has made significant progress in implementing the prerequisite structural pillars for the launch of a retail Fund that will mirror our wholesale High-Income Value Microcap Fund strategy. We remain well on track to have the Fund launched in the second half of FY19. Entering the retail space will see us enter a new previously untapped distribution channel for Microequities, allowing us to offer a new set of clients access to a value investment doctrine as applied to the fastest growing asset classes within the ASX. Whilst we are excited by the opportunities our entry into the retail market will afford us, we are also fully cognisant that in order to successfully establish a Fund, we will need a combination of strong investment performance and effective sales and marketing execution. We believe we possess those required skillsets within our team.

Financial FY19 Update

The business remains on a strong financial footing and we continue to trade profitably throughout the first four months of FY19. Our balance sheet remains solidly capitalised permitting us to both seed the launch of forthcoming retail income fund as well continue to undertake opportunistic share buybacks of Microequities Asset Management Group Ltd. In closing, I would like to thank all our clients and our shareholders for their loyal and continuing support. Our steadfast focus to our core capital allocation function will not waiver.

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 five open ended investment funds and has over \$400m of funds under management. For further information visit www.microequities.com.au

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