



14 February 2019

## Key Financial Highlights

	31 December 2018	31 December 2017	% Change
Funds Under Management (\$m)	369.0	441.7	-16%
Client Numbers	818	837	-2%
Recurring Revenue <sup>(1)</sup>	\$3,418,913	\$3,346,095	2%
Ongoing Operating Expenses	\$1,590,787	\$1,493,465	7%
<b>Operating Profit from Recurring Revenue</b>	<b>\$1,828,126</b>	<b>\$1,852,630</b>	<b>-1%</b>
Performance Fee Income	\$591,130	\$1,981,994	-70%
Other Revenue	-\$91,015	\$234,456	-139%
Underlying NPAT <sup>(2)</sup>	\$1,526,667	\$2,820,064	-46%
Statutory NPAT	\$1,084,265	\$2,820,064	-62%

<sup>(1)</sup> Represents management fees

<sup>(2)</sup> Underlying NPAT excludes the after tax cost related to the employee share-based payment expense

## Review of 1H19 Result

During the second quarter of Financial year 2019 ('FY19'), domestic and world equity markets experienced pronounced market price declines. The consequent effect of these declines on our business is twofold; firstly, as the bulk of our funds under management ('FUM') are marked to market, our FUM falls in concert with the market price declines of our investments. Secondly, the market price declines negatively affect investor sentiment, thus causing a slow down in gross inflows and incrementing outflow patterns, as some investors react to short term equity market trends. The market declines were especially pronounced in the asset classes we manage, with the Small Cap Accumulation index and the Emerging Companies Accumulation index falling 13.7% and 16.4% respectively over the last calendar quarter of 2018.

Paradoxically and ironically, deep value investment opportunities under these market conditions increase, thereby improving the potential long-term investment outcomes for our existing and new clients. Primarily as a result of the second quarter market declines, our FUM has declined from a previously reported \$406million (as of 31 October 2018) to \$369million (as of 31 December 2018). The core of funds under management are well poised to deliver intrinsic value growth in FY19 and we see the current equity market conditions as benefiting our deep value and fundamental approach to long term capital allocation.

## Operating Profit from recurring revenue

Financially, in the first half we experienced an increase in recurring revenue of +2% to \$3.42million versus the previous corresponding period ('PCP') whilst operating profit from recurring revenue declined marginally to \$1.83million. Total client numbers are down slightly to 818 (-2% versus PCP).

## **Balance sheet and dividend payment and buyback**

The business continues to trade profitably, with a strong balance sheet and \$8.7million of net tangible assets. The board of directors are pleased to declare an interim dividend of 1 cent per share fully franked. Additionally, following the publication of these financial results it is the intention of the company to continue to undertake considered, measured and opportunistic share buybacks, should conditions permit.

## **Looking ahead for the rest of FY19**

We are pleased to report that on 31 January we successfully launched our Microequities Value Income Fund which is the first of funds that allows retail investors access to our product offering and will target the financial advisors as the distribution channel. This fund is based on the strategy of our proven Microequities High Income Value Microcap Fund, which is a fund for wholesale investors and has a +5-year track record of capital growth and regular high cash income payments.

The current equity environment is likely to create greater levels of pricing dislocation over the near term and our investment management team is intensely focused on identifying long term investment opportunities that will inevitably be created from irrational investor behaviour. Our investment management team is highly focused on their continued research and investment activities and we look forward to demonstrating the combined effects of long-term value investing applied to a growth asset class.

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**Microequities Asset Management Group Limited**

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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 investment funds and has over \$350m of funds under management. For further information visit [www.microequities.com.au](http://www.microequities.com.au)