

23 September 2024

ASX Compliance

Dear Sir / Madam,

Microequities Asset Management Group Limited ('MAM'): Annual Report – Query Reference: 100018

Thank you for your letter dated 18 September 2024.

MAM provides the following information as requested.

- 1) The Directors consider that they have prepared a valuation that complies with AASB 13, *Fair Valuation Measurement* despite the auditor BDO Audit Pty Ltd having a differing opinion that would necessitate the conduct of a review of the valuation methodology with respect to two assets referred to in 2 below. The reasons for the Directors' view are set out below in 2.
- 2)
 - a) MAM is invested in two wholesale managed investment trusts. The **Microequities Private to Beyond the IPO Fund** (managed by Microequities) and the **EVP Co-Investment Trust I** (managed externally by a third party). The carrying value of these investments is \$2,086,937 and \$344,290 respectively based on the latest unit price information available on June 30, 2024.
 - b)
 - i) The **Microequities Private to Beyond the IPO Fund** has a Net Asset Value on June 30, 2024, of \$64,330,380. MAM's Unit holding in the Fund is circa 3.2% of the Fund. The Fund portfolio is diversified across 26 securities including ASX listed equities (12.8%), unlisted ordinary equity (37.8%), convertible notes and preference shares (32.4%), term deposits (3.3%) and cash (13.8%).
 - ii) Circa 30% of the portfolio is either ASX listed equities and cash or cash equivalents, the other 70% of securities would be classified as level 3, not having a readily observable market price.
 - iii) The valuation methodology of unlisted securities as per the Information Memorandum offer document of the Fund states "*Unlisted securities will be initially valued at the lower of cost or net realisable value. Most unlisted securities will be valued at cost unless there is indication (via a third party transaction) that the net realisable value has increased above or reduced below cost. Unlisted companies may sometimes raise further capital or existing shareholders may transact existing shares at arm's length. If Microequities Asset Management is aware of the latest transacted price and the latest transacted price meets the definition of fair value, the unlisted*

securities will be revalued to the latest transacted price. Fair value is the amount for which an asset could be exchanged in an orderly transaction between knowledgeable, willing parties in an arms' length transaction at the measurement date. If Microequities Asset Management believes that the latest transacted price does not reflect the fair value of the securities, Microequities Asset Management may, at its discretion, continue to value the investment at the lower of cost or net realisable value." The valuation methodology is consistent with the practice within the Venture Capital and Private Equity industry.

- iv) Of the unlisted assets in the portfolio 8 investees or circa 35% of the portfolio had a recent capital transaction. These transactions would mark fair value of the assets and in MAM's opinion would not require any further independent valuation.
 - v) Of the unlisted assets in the portfolio 8 investees or circa 32% of the portfolio are in the form of convertible notes and or preference shares with downside protection such as liquidation preferences or anti-dilution protection in the capital stack in order to maintain the value of the security. In MAM's opinion these would not require any further independent valuation because the performance of the assets coupled with their downside protection obviates the need to mark down their values whilst they should also not be marked up in the absence of relevant third party transactions in accordance with industry norms.
 - vi) The investment manager of the Fund provided the auditor with either evidence of recent transactions in the investees or memos on each of the unlisted investments outlining their valuation treatment. The auditor did not likely review the memos and instead requested their corporate advisory division (which is "independent" of BDO Audit) to provide a review of the valuation methodology. Beyond the MAM Group audit and the audit of the Fund additional significant expenses relating to this review were quoted that management believed were excessive.
 - vii) On a look through basis of MAM's investment in the Fund its exposure to the carrying value of ordinary shares held by the Fund is circa \$778,140 (i.e. \$64,330,380 X 37.8% X 3.2%). Given the diversified nature of the securities within the Fund (with the single largest position being circa 14.3% or equivalent to circa \$294,000) and given that the assets have been valued in accordance with industry norms as detailed above it is the opinion of the directors that even if some of the ordinary shares held in the Fund were not accurately valued it is not possible that the amount involved would exceed the materiality threshold for the audit.
- c)
- i) The **EVP Co-Investment Trust I** is externally managed by a third party that is responsible for providing valuation of the units to investors.
 - ii) The valuations are normally provided in September each year, which is post MAM's results date. This year the valuation was provided on 17/09/2024. The latest valuation available to MAM was

dated 04/09/2023. The auditor did not accept this as in their opinion the valuation was not recent enough.

iii) In previous years these valuations were received as follows FY22 (20/09/2022) FY23 (04/09/2023). The auditor accepted these in past year audits.

iv) The valuations of these Units are as follows and FY22 \$346,150, FY23 \$344,290, FY24 \$391,350. We point out that the \$47,060 difference between the carrying value of the Units in the accounts and the valuation advised by the third party manager on 17/09/2024 is a positive variance well below materiality.

3) As outlined above in 2 the Directors are satisfied that the methodology used for the valuations of the two investments is appropriate, and expensive third party valuations (which are not mandated by the accounting standards) were not warranted in the circumstances.

4) MAM intends in consultation with the auditor to review the formulation of the valuation methodology used in FY24.

5) Yes.

6) Not Applicable.

7) The Board confirmed with management that the financial records of MAM have been properly maintained and that the financial statements comply with the appropriate accounting standards and they give a true and fair view of the financial position and performance of MAM. Additionally, the Board received an annual completion report from the auditor.

8) Confirmed.

9) Confirmed.

Yours sincerely,

Samuel Gutman

Company Secretary

Microequities Asset Management Group Limited



18 September 2024

Reference: 100018

Mr Samuel Gutman
Company Secretary
Microequities Asset Management Group Limited
Level 31, 1 Farrer Place
Sydney NSW 2000

By email

Dear Mr Gutman

Microequities Asset Management Group Limited ('MAM'): Annual Report - Query

ASX refers to the following:

- A. MAM's annual report for the year ended 30 June 2024 lodged with ASX Market Announcements Platform and released on 16 August 2024 ('Annual Report').
- B. ASX notes that the Independent Auditor's Report attached to the Annual Report ('Auditor's Report') contains a qualified opinion together with the Basis for qualified opinion:

"Qualified opinion

We have audited the financial report of Microequities Asset Management Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2024, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including material accounting policy information, the consolidated entity disclosure statement and the directors' declaration.

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2024 and of its financial performance for the year ended on that date; and*
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.*

Basis for qualified opinion

The Group's investments in unlisted unit trusts, categorised as level 3, are carried in the statement of financial position at \$5,767,255. We were not able to obtain sufficient appropriate audit evidence to support the fair value of two of these investments with a carrying value of \$2,431,227 as at 30 June 2024 because the directors have not prepared an appropriate valuation that is in accordance with AASB 13, Fair Value Measurement and we were not able to satisfy ourselves regarding the carrying value by alternative means. Consequently, we were unable to determine whether any adjustment to the carrying value of investments in unlisted unit trusts, categorised as level 3 was required."

- C. Directors' declaration, which states:

“In the directors’ opinion:

- *the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;*
- *the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;*

...”

- D. MAM’s Corporate Governance Statement for 2024 lodged on the ASX Market Announcements Platform on 16 August 2024 which in relation to recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations states:

“Before the Board approves financial statements for a financial period, it receives from its CEO and Executive Director a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.”

- E. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX +accounts, the following rules apply.

(b) The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.

Request for information

In light of the information contained in the Annual Report and the Auditor’s Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Why, in the Auditor’s opinion, have the directors not prepared an appropriate valuation of the two investments with a carrying value of \$2,431,227 as at 30 June 2024 (‘Two Investments’) that complies with AASB 13, *Fair Valuation Measurement*?
2. Please provide details on the factors considered by the Directors to satisfy themselves that the methodology used for the valuation of these Two Investments in unlisted funds was appropriate.
3. Given the fair values of Two Investments as at 30 June 2024 have not been determined in accordance with AASB 13, *Fair Value Measurement*, please provide basis for Directors’ declaration that the MAM’s financial statements for the year ended 30 June 2024 comply with Australian Accounting Standards.
4. What steps does MAM intend to take to obtain an unqualified audit opinion with regards to its future financial statements?
5. In relation to the Annual Report, did the Board receive the CEO and Executive Director declaration, as described in section 4.2 of MAM’s Corporate Governance Disclosure, that in the opinion of the CEO and Executive, the financial records of MAM have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of MAM and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

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6. If the answer to Question 5 is 'no', why did the Board not receive the CEO and Executive Director declaration as described in section 4.2 of MAM's Corporate Governance Disclosure?
 7. What enquiries did the Board make of management to satisfy itself that the financial records of MAM have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of MAM?
 8. Please confirm that MAM is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 9. Please confirm that MAM's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of MAM with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **4:00 PM AEST Wednesday, 25 September 2024**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, MAM's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require MAM to request a trading halt immediately.

Your response should be sent to me by e-mail at ListingsComplianceSydney@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in MAM's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to MAM's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that MAM's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

ASX reserves the right to release all or any part of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Yours sincerely

ASX Compliance