MIRRABOOKA
Investments Limited

Finding opportunities in small and medium-sized companies

Half-Year Review to 31 December 2019

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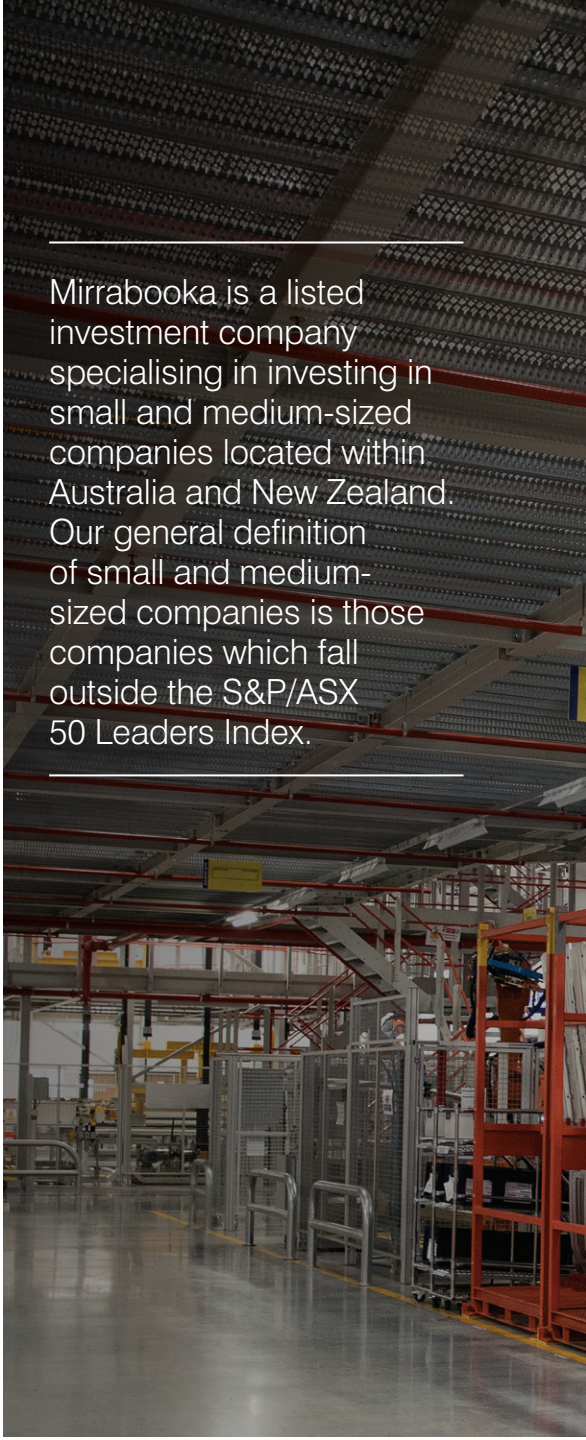


Mirrabooka is a listed investment company specialising in investing in small and medium-sized companies located within Australia and New Zealand. Our general definition of small and medium-sized companies is those companies which fall outside the S&P/ASX 50 Leaders Index.

Half-Year in Summary

Profit for the Half-Year

$4.4m

Down 5.5% from 2018

Share Price at 31 December 2019

$2.70

$2.52 in 2018

Fully Franked Interim Dividend

3.5¢

3.5 cents interim, 10 cents special, total 13.5 cents for 2018

Total 6 Month Shareholder Return

14.0%

Share price plus dividend

Net Asset Backing at 31 December 2019

$2.54

$2.21 in 2018

Management Expense Ratio

0.53% Annualised

0.54% in 2018

Total 6 Month Portfolio Return

10.2% Including franking*

S&P/ASX Mid Cap 50 and Small Ordinaries Accumulation Indices including franking* 5.2%

Total Portfolio

$415.3m

Including cash at 31 December 2019 $358.0 million in 2018

* Assumes an investor can take full advantage of the franking credits.

About the Company

Mirrabooka is a listed investment company specialising in investing in small and medium-sized companies located within Australia and New Zealand. Our general definition of small and medium-sized companies is those companies which fall outside the S&P/ASX 50 Leaders Index.

Investment Aims

The Company aims to provide medium to long term investment gains through holding core investments in selected small and medium-sized companies and to provide attractive dividend returns to shareholders from these investments.

Approach to Investing

Mirrabooka invests in companies that have the following characteristics outlined on page 3.

Investing in this sector can be subject to greater volatility compared with investing in larger capitalised companies because of the reliance these smaller companies have on single markets, products and/or key individuals. In managing the higher risk that is inherent in the small and mid-cap sector of the market, Mirrabooka approaches management of the portfolio as described on the following page.

What We Look For in Companies

- Strong industry position
- Quality balance sheet
- Good management
- Good cash generation

✓ Invest in quality companies and growing businesses

✗ Avoid speculative plays and overvaluation

Approach to Managing the Portfolio

- ✓ Ensure top 20 holdings do not dominate the portfolio
- ✓ Take small starting positions and add when there is increased conviction, particularly through any price weakness
- ✓ Sell when there is an adverse change from original investment case
- ✓ Reduce when valuations become overstretched
- ✓ Better management of capital gains and losses through diversification

Review of Operations and Activities

Profit and Dividend

The half-year profit was $4.4 million, down marginally from $4.6 million in the corresponding period last year. The large uplift in income from the trading and options portfolios was offset by a fall in investment income, as adjustments were made to the portfolio to better capture quality growth opportunities.

The interim dividend was maintained at 3.5 cents per share fully franked. In the corresponding period last year, a special dividend of 10 cents per share fully franked was paid given the uncertainty surrounding the future refundability of franking credits at the time. There was no special dividend this half-year.

For the 3.5 cents per share interim dividend, all this amount was sourced from taxable capital gains, on which the Company has paid or will pay tax. The amount of the pre-tax attributable gain on this portion of the dividend, known as an 'LIC capital gain', is therefore 5.0 cents. These LIC capital gains allow some shareholders to claim a tax deduction in their tax return.

Portfolio Returns

The market for small and mid-cap companies over the six months to 31 December 2019 remained buoyant following on from the previous six months (Figure 1), with many companies in these sectors maintaining elevated valuations as investors continued their search for growth in an otherwise subdued economic environment.

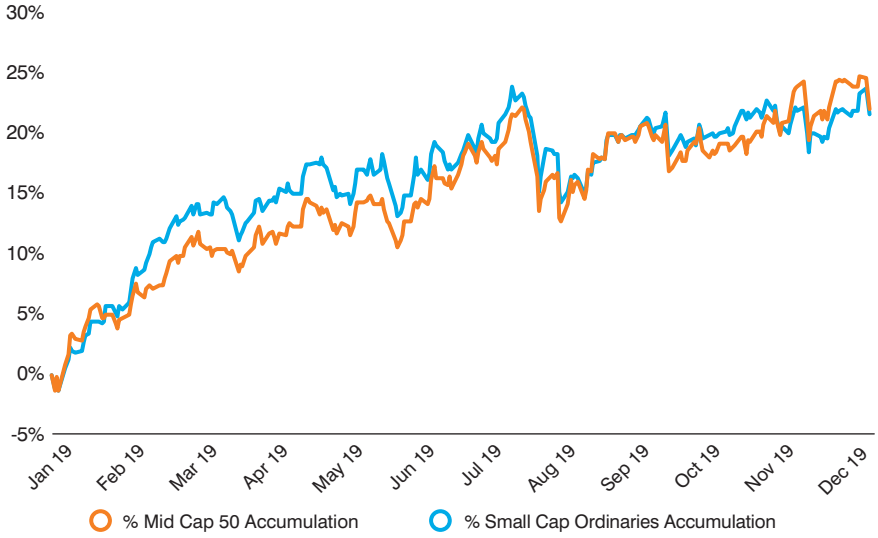
During the period, Mirrabooka has continued to refine the portfolio with the aim of providing consistent medium to long term returns with a diversified portfolio of approximately 65 stocks. This approach has served the Company well. Our approach is to capture opportunities in small and mid-sized companies with growth prospects, but at the same time limit potential capital losses if prospects deteriorate by not taking large investment positions in any one holding in the portfolio.

The narrowing of the focus of the portfolio into preferred holdings with quality franchises has helped produce a very strong return for the six-month period. Mirrabooka's portfolio return, including the benefit of franking, was 10.2 per cent, well ahead of the combined small and mid-cap sector, including franking, which was up 5.2 per cent over the same period.

The most significant contributors to performance over the last six months came from long-standing holdings such as Objective Corporation, Xero, Carsales.com, Fisher & Paykel Healthcare, Lifestyle Communities and Reece, as well as more recent investments in companies like James Hardie Industries and NZX Limited. In addition, the takeover of Wellcom Group also contributed to a strong positive performance.

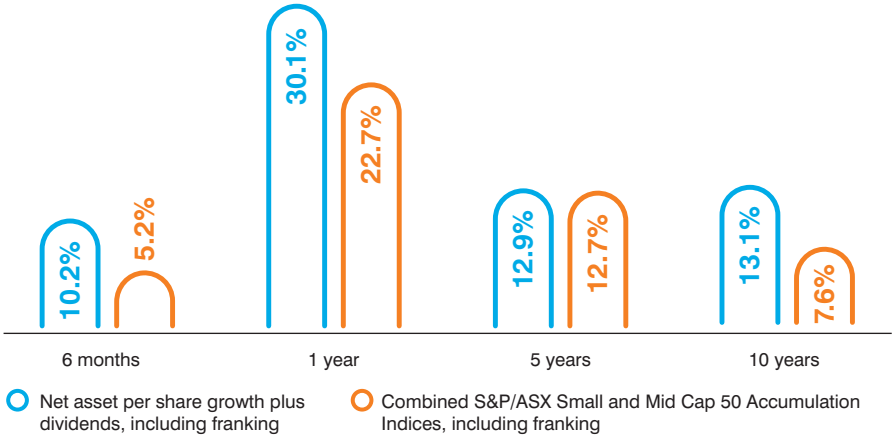
Importantly the 10-year return for Mirrabooka, including the benefit of franking credits is positive 13.1 per cent per annum, well ahead of the benchmark over the same period which is up 7.6 per cent per annum, including franking (Figure 2).

Figure 1: Small and Mid Cap Sector Performance – 12 months to 31 December 2019



Source: FactSet

Figure 2: Portfolio Return to 31 December 2019* – Including the Benefit of Franking



* Annualised returns other than six-month figure.

Note: Mirrabooka's net asset per share growth plus dividend series is calculated after management fees, income tax and capital gains tax on realised sales of investments. It should also be noted that Index returns for the market do not include the impact of management expenses and tax on their performance.

Figures assume an investor can take full advantage of the franking credits.

Review of Operations and Activities continued

Share Price Performance

Figure 3 outlines the benefit of compound returns and the value of Mirrabooka's investment approach given the relative total share price return (including dividends) from an investment of $1,000 in Mirrabooka over the 10 years to 31 December 2019 versus the return from the combined Small Ordinaries and Mid Cap 50 Accumulation Indices. It is also interesting to note that in addition to outperforming Mirrabooka's benchmark, the share price return including franking has outperformed the general market as represented by the S&P/ASX 200 Accumulation Index.

At 31 December 2019, the share price was trading at a premium of 6 per cent to the net asset backing per share (Figure 4).

10-year Portfolio Return Including Franking

13.1%

Figure 3: Performance of an Investment of $1,000 in Mirrabooka Shares Including Dividends – 10 Years to 31 December 2019 (Includes the Benefit of Franking)

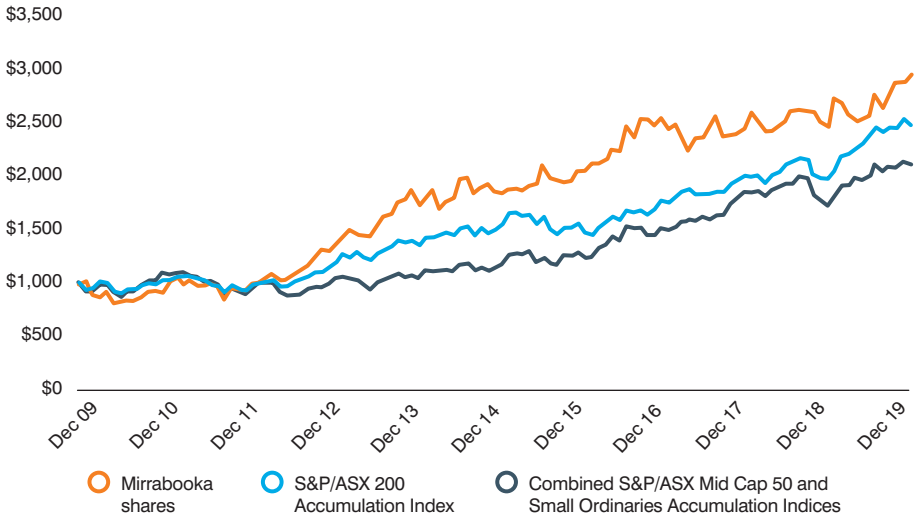
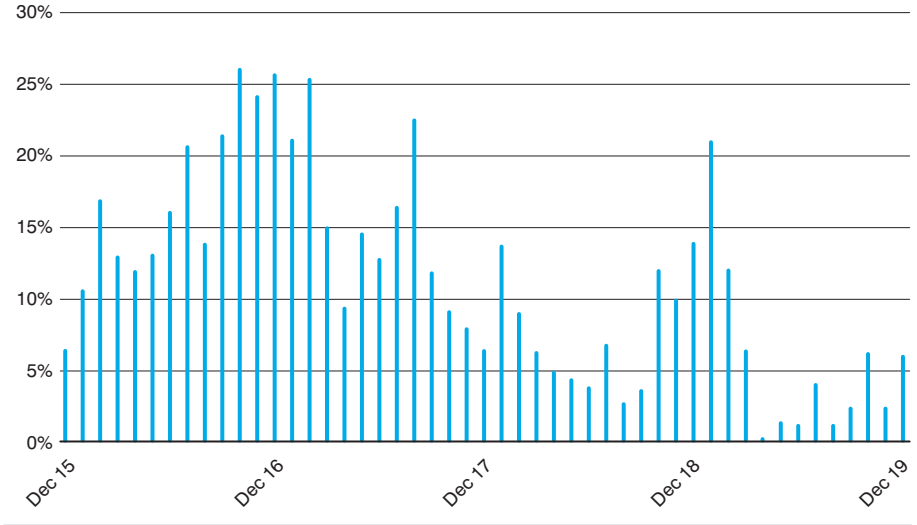


Figure 4: Share Price to Net Asset Backing



Review of Operations and Activities continued

Portfolio Changes

In looking to consolidate the portfolio into preferred holdings, companies where it was felt the outlook was less certain, were sold completely. This included Iluka Resources, Boral, Sims Metal Management and WorleyParsons. Two large positions in the portfolio, Wellcom Group and Dulux, were taken over and the position in Lifestyle Communities was also trimmed as its shares continued to perform overly strongly.

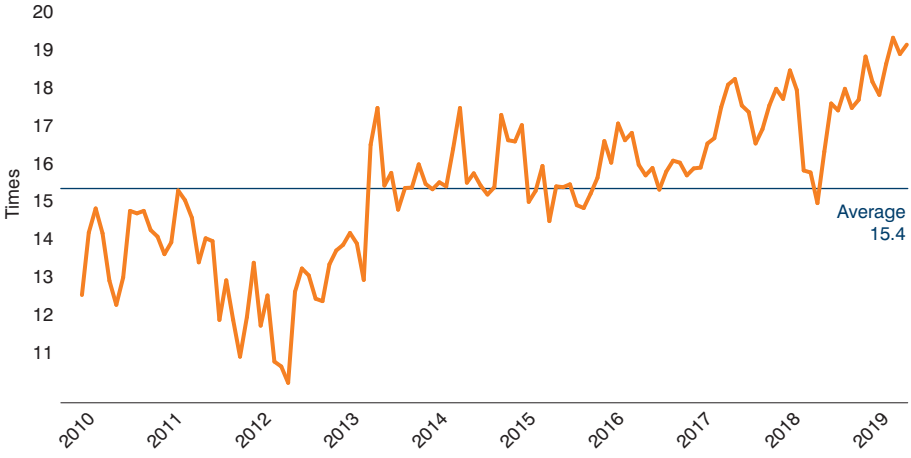
Purchases mostly reflected reinvestment across a number of existing holdings. Some new companies were also added, with Cleanaway Waste Management, Infomedia and Lendlease the largest of these. Mirrabooka is attracted to these investments as these companies have market-leading positions in their respective core business segments and in sectors that are expected to grow in the future.

Opportunities to Invest

We continue to view share prices as high, in the small and mid-cap sector of the market. Current equity valuations (Figures 5 and 6) are factoring in very low interest rates and significant growth with little allowance for the execution challenges that smaller businesses typically face at different times. While we don't have any extra insight on the direction of the market, current conditions are seeing Mirrabooka particularly focused on the quality of the companies that it owns. This approach is intended to reduce the risk of significant company-specific capital losses that are more prevalent in lower-quality businesses, and position us to take advantage of any broader market correction by allowing for opportunities to reinvest in companies that we already own and know well.

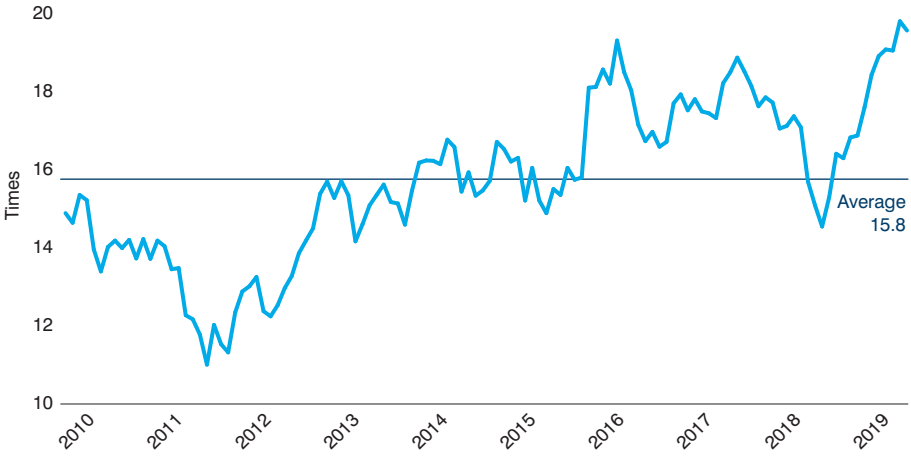
The cash position of $18.6 million provides good flexibility moving into the second half of the financial year should there be an uplift in volatility.

Figure 5: Price Earnings Ratio – S&P/ASX Small Ordinaries



Source: FactSet

Figure 6: Price Earnings Ratio – S&P/ASX Mid Cap 50



Source: FactSet

Top 20 Investments

As at 31 December 2019

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 31 December 2019

		Total Value $ Million	% of Portfolio
1	Mainfreight	20.4	5.1
2	James Hardie Industries	15.5	3.9
3	Qube Holdings	14.5	3.7
4	Objective Corporation	14.0	3.5
5	Seek	12.9	3.2
6	ARB Corporation	12.5	3.1
7	Reece Australia	11.4	2.9
8	EQT Holdings	11.4	2.9
9	IRESS	11.3	2.8
10	Breville Group	10.7	2.7
11	Carsales.com	10.4	2.6
12	Macquarie Telecom Group	10.2	2.6
13	Atlas Arteria*	8.6	2.2
14	Reliance Worldwide Corporation	8.5	2.1
15	Cooper Energy	8.3	2.1
16	ALS*	8.2	2.1
17	Webjet	7.5	1.9
18	Brickworks	7.5	1.9
19	AUB Group	7.4	1.9
20	Xero	7.2	1.8
Total		218.4	

As a percentage of total portfolio value (excludes cash) 55.0%

* Indicates that options were outstanding against part of the holding.

Income Statement

For the Half-Year Ended 31 December 2019

	Half-Year 2019 $'000	Half-Year 2018 $'000
Dividends and distributions	4,596	4,993
Revenue from deposits and bank bills	152	190
Net gains or losses on trading portfolio	1,359	(75)
Income from options written portfolio	(83)	779
Other income	-	40
Income from operating activities	**6,024**	**5,927**
Finance costs	(80)	-
Administration expenses	(1,077)	(1,068)
Profit before income tax expense	**4,867**	**4,859**
Income tax expense	(505)	(243)
Profit for the half-year	**4,362**	**4,616**
	Cents	**Cents**
Profit per share	2.71	2.91

Balance Sheet

As at 31 December 2019

	31 Dec 2019 $'000	30 June 2019 $'000
Current assets		
Cash	18,600	30,453
Receivables	294	443
Trading portfolio	-	3,000
Total current assets	**18,894**	**33,896**
Non-current assets		
Deferred tax assets	112	-
Investment portfolio	397,594	361,055
Total non-current assets	**397,706**	**361,055**
Total assets	**416,600**	**394,951**
Current liabilities		
Payables	289	270
Tax payable	5,646	9,647
Options sold portfolio	855	628
Total current liabilities	**6,790**	**10,545**
Non-current liabilities		
Deferred tax liabilities	-	190
Deferred tax liabilities – investment portfolio	44,414	39,168
Total non-current liabilities	**44,414**	**39,358**
Total liabilities	**51,204**	**49,903**
Net assets	**365,396**	**345,048**
Shareholders' equity		
Share capital	208,514	206,602
Revaluation reserve	91,285	78,332
Realised capital gains reserve	47,804	43,474
Retained profits	17,793	16,640
Total shareholders' equity	**365,396**	**345,048**

Summarised Statement of Changes in Equity

For the Half-Year Ended 31 December 2019

	Half-Year 2019 $'000	Half-Year 2018 $'000
Total equity at the beginning of the half-year	**345,048**	361,653
Dividends paid	(10,430)	(13,443)
Dividend Reinvestment Plan	1,921	2,269
Share capital adjustments	(9)	(10)
Total transactions with shareholders	**(8,518)**	(11,184)
Profit for the half-year	4,362	4,616
Revaluation of investment portfolio	35,257	(43,527)
Provision for tax on revaluation	(10,753)	13,046
Revaluation of investment portfolio (after tax)	24,504	(30,481)
Total comprehensive income for the half-year	**28,866**	(25,865)
Realised gains/(losses) on securities sold	17,059	22,591
Tax expense on realised gains/(losses) on securities sold	(5,508)	(7,078)
Net realised gains/(losses) on securities sold	**11,551**	15,513
Transfer from revaluation reserve to realised gains reserve	**(11,551)**	(15,513)
Total equity at the end of the half-year	**365,396**	324,604

A full set of Mirrabooka's interim accounts are available on the Company's website.

Holdings of Securities

As at 31 December 2019

Details of the Company's portfolios are given below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share (which is recorded each month on the toll free telephone service at 1800 780 784), as individual holdings in the portfolio may change.

Unless otherwise stated, the securities in this list are fully paid ordinary shares, trust units, stapled securities or convertible notes.

Code	Company	Principal Activities	Number Held '000	Market Value $'000
MFT	Mainfreight (NZX listed)	Provider of managed warehousing and international and domestic freight forwarding services	500	20,395
JHX	James Hardie Industries	Building materials company focused on fibre cement products, predominantly in the United States	558	15,538
QUB	Qube Holdings	Provider of import and export logistics services with national operations	4,409	14,506
OCL	Objective Corporation	Provider of information technology software and services	2,345	14,044
SEK	Seek	Operator of employment classifieds websites in Australia and offshore with interests in education and training	570	12,854
ARB	ARB Corporation	Manufacturer and distributor of four-wheel drive vehicle accessories in Australia and internationally	666	12,492
REH	Reece	Distributor and retailer of plumbing, building and hardware supplies	992	11,367
EQT	EQT Holdings	Provider of private client, trustee, estate administration and funds management services	370	11,365

Code	Company	Principal Activities	Number Held '000	Market Value $'000
IRE	IRESS	Provider of share market and wealth management information systems	866	11,297
BRG	Breville Group	Manufacturer and wholesaler of electrical consumer products	613	10,697
CAR	Carsales.com	The largest online automotive classifieds business in Australia. They also have interests in leading online automotive classified businesses in Brazil, South Korea, Malaysia, Indonesia, Thailand and Mexico	625	10,381
MAQ	Macquarie Telecom Group	Provides voice and telecommunication services as well as data hosting and co-location services to businesses and government customers	440	10,212
ALX*	Atlas Arteria	Owns stakes in a number of toll roads in France and the United States	1,104	8,603
RWC	Reliance Worldwide Corporation	Designs, manufactures and distributes products for the plumbing industry including fittings, pipes, valves and thermostatic products	2,100	8,484
COE	Cooper Energy	An Australian oil and gas company currently developing the Sole gas project in the Gippsland Basin to complement existing production in the Cooper Basin and Otway Basin	13,752	8,320
ALQ*	ALS	Provider of analytical laboratory services to mining, life sciences, energy and industrial clients	900	8,217

Holdings of Securities continued

As at 31 December 2019

Code	Company	Principal Activities	Number Held '000	Market Value $'000
WEB	Webjet	Provides online travel booking services. It is an online travel agency, which enables customers to search and book domestic and international travel flight deals, travel insurance, car hire and hotel accommodation worldwide	575	7,487
BKW	Brickworks	Australia's largest manufacturer of bricks and pavers, with other investments in property development and listed equities	400	7,472
AUB	AUB Group	Investor in a network of small to medium Australian insurance brokers	620	7,434
XRO	Xero	Develops cloud-based accounting software for small and medium-sized businesses in New Zealand, Australia, the United Kingdom and the United States	90	7,200
NXT	NEXTDC	Owns and operates large scale data centres across Australia	1,050	6,909
RMD*	ResMed	Developer, manufacturer and distributor of medical equipment for treating, diagnosing, and managing sleep-disordered breathing and other respiratory disorders	330	6,905
ANN*	Ansell	Designer, manufacturer and distributor of a wide range of industrial, surgical and examination gloves and other protective products	240	6,837
IVC	InvoCare	Provider of services related to funerals, burials and cremations	516	6,810

Code	Company	Principal Activities	Number Held '000	Market Value $'000
EVT	Event Hospitality & Entertainment	Entertainment, hospitality and leisure company with interests in cinemas, hotels and resorts	500	6,800
CWY	Cleanaway	Engages in the provision of total waste management, industrial, and environment services	3,350	6,734
AWC*	Alumina	40 per cent interest in a joint venture with Alcoa involved in bauxite mining, alumina refining and aluminium smelting	3,000	6,669
CPU*	Computershare	Provides stock registration and transfer services to companies listed on various stock markets globally, as well as providing technology services for stock exchanges, investor services for shareholders and employee share plan management and the provision of bankruptcy, class action and mortgage servicing activities for various corporate clients globally	395	6,546
FPH	Fisher & Paykel Healthcare Corporation	Designs, manufactures and markets a range of medical devices used in respiratory care and the treatment of obstructive sleep apnoea	295	6,225
NZX	NZX (NZX listed)	Operates as a securities exchange, and also provides wealth management services for New Zealand advisers via its wealth technologies business	4,494	5,887

Holdings of Securities continued

As at 31 December 2019

Code	Company	Principal Activities	Number Held '000	Market Value $'000
CTD	Corporate Travel Management	Provides travel management services to the corporate market. It offers business travel advisory services, bookings, ticketing, diagnostics and recommendations, ancillary services and also provides networking tools	278	5,699
FRE	Freightways (NZX listed)	Engages in the provision of express packages and business mail services as well information and destruction services both in Australia and New Zealand	685	5,590
LIC	Lifestyle Communities	Developer, owner and manager of independent living communities for elderly citizens	600	5,530
OZL	OZ Minerals	Engages in the mining of copper and gold at developed mines as well as engaging in mining exploration and development projects	515	5,431
APE	AP Eagers	Operator of a national footprint of motor vehicle dealerships representing a broad range of car and truck brands in Australia	514	5,265
FNP	Freedom Foods Group	Engaged in the manufacture and sale of food products, specialising in healthy cereal, snacking and beverage products and the export of UHT dairy products	1,000	5,100
ABC	Adelaide Brighton	Manufactures and supplies products to the building, construction, infrastructure, and mineral processing markets	1,435	4,965

Code	Company	Principal Activities	Number Held '000	Market Value $'000
SPL	Starpharma Holdings	Engages in the research and development of dendrimer products for pharmaceutical, life science and other applications	3,980	4,815
SHV	Select Harvests	One of Australia's largest growers, processors and packager of nuts, focusing predominantly on almonds	550	4,615
TGR	Tassal Group	Producer of Atlantic Salmon from Tasmania	1,100	4,576
RHP	Rhipe	Provides software licensing and cloud computing services on behalf of a number of large, multinational software vendors	1,980	4,098
IFM	Infomedia	Engages in the development and provision of applications and information solutions to the after sales parts and service sector of the automotive industry	1,879	3,927
AD8	Audinate Group	Engages in the development and commercialisation of digital audio network solutions	492	3,904
APT	Afterpay Touch Group	A provider of payment solutions, primarily operating in the 'buy now, pay later' segment of the retail market	124	3,640
HUB	HUB24	Provider of platform, investment, advisory and stock broking services to institutional, corporate and retail clients	325	3,627

Holdings of Securities continued

As at 31 December 2019

Code	Company	Principal Activities	Number Held '000	Market Value $'000
TPM	TPG Telecom	Provider of a range of telecommunication services to residential users, small and medium enterprises, government and large corporates in Australia	500	3,355
LLC	Lendlease Group	Property and infrastructure development company that engages in designing, developing, constructing, funding, owning, co-investing or managing property and infrastructure assets	190	3,344
FWD	Fleetwood Corporation	Manufactures, designs and supplies accommodation for the affordable housing industry, education and justice departments. It also handles the operation of accommodation villages in remote sites in Australia	1,505	3,160
RBL	Redbubble	Operates a global online marketplace for print on demand products (including T-shirts and other clothing, wall art and home décor), based on user-submitted artwork	2,788	3,150
NWL	Netwealth Group	Is a diversified financial services company providing independent investment platform services to institutional, corporate and retail clients	388	3,034
PPS	Praemium	Provides investment technology including V-Wrap, SMA platforms and administration services for accountants, financial advisers, stockbrokers and fund administrators	5,700	2,907

Code	Company	Principal Activities	Number Held '000	Market Value $'000
PMV	Premier Investments	Operates a number of speciality retail fashion chains in Australia and New Zealand and a growing international presence through its Smiggle children's stationery brand	152	2,860
VGL	Vista Group International	The leading supplier of software to the film industry, providing on-premise and cloud solutions to film exhibitors and producers	700	2,450
WSP	Whispir	Engages in the provision of communications software and micro applications for enterprises	1,475	2,271
PNI	Pinnacle Investments	Develops and operates investment management businesses; and provides distribution services, and business support to its affiliates	485	2,261
CBR	Carbon Revolution	Engages in designing, manufacturing and marketing single-piece carbon fibre wheels	560	2,190
FCL	Fineos Corporation	A global software company that provides software solutions to the life, accident and health insurance industry	800	2,120
GTN	GTN	Supplier of traffic information reports to radio stations across each operating geography (Australia, Canada, the United States, the United Kingdom and Brazil), providing advertisers in these markets with a unique and broad audience reach	2,450	2,033

Holdings of Securities continued

As at 31 December 2019

Code	Company	Principal Activities	Number Held '000	Market Value $'000
LSX	Lion Selection Group	Mining investment company that invests in, and provides funding to mining companies in the project development phase	3,696	1,700
MKT	Marketplacer (unlisted)	Is a software company that provides the technology and infrastructure needed to establish and maintain online marketplaces for retail and B2B customers	150,000	1,500
OPC	Opticomm	Operates as a telecommunications provider. It designs, installs, operates and maintains fibre-based fixed line access telecommunication networks	264	1,056
CUP	CountPlus	Operates as a holding company with interest in providing accounting and financial services	910	1,001
PKS	PKS Holdings	Is a healthcare company which provides clinical decision support software known as 'Rippledown' which automates human decision-making processes in healthcare organisations	5,500	880
Total				396,739

* Investments marked with an asterisk indicates that options were outstanding against part of the holding.

Major Transactions in the Investment Portfolio

Acquisitions	Cost $'000
Cleanaway Waste Management	6,736
Infomedia	3,526
Lendlease Group	3,149
Corporate Travel Management	2,955
Premier Investments	2,952

Sales	Proceeds $'000
Wellcom Group (takeover by Innocean Worldwide)#	10,182
Lifestyle Communities	8,066
Dulux Group (takeover by Nippon Paint)#	5,730
Alumina	3,817
Iluka Resources#	3,313
Boral#	3,221
Sims Metal Management#	2,884
WorleyParsons#	2,364

Complete disposals from the portfolio.

New Companies Added to the Portfolio

Cleanaway Waste Management

Infomedia

Lendlease Group

Premier Investments

Pinnacle Investment Management

FINEOS Corporation

Carbon Revolution

Marketplacer (unlisted)

CountPlus

OptiComm

Company Particulars

Mirrabooka Investments Limited (MIR)
ABN 31 085 290 928

Directors
Terrence A Campbell AO, Chairman
Robert M Freeman, Managing Director
Ross E Barker
Ian A Campbell
Jacinth K Fairley
David E Meiklejohn AM

Company Secretaries
Matthew J Rowe
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office and Mailing Address
Level 21, 101 Collins Street
Melbourne Victoria 3000

Contact Details

Telephone	(03) 9650 9911
Facsimile	(03) 9650 9100
Email	invest@mirra.com.au
Website	mirra.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange):

Telephone	1800 780 784 (toll free)

Share Registrar
Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

Shareholder

Enquiry Lines	1300 653 924
	+61 3 9415 4342 (from overseas)
Facsimile	(03) 9473 2500
Website	investorcentre.com/au/contact

For all enquiries about shareholdings and related matters, please contact the share registrar as above.

Australian Securities Exchange Code

MIR	Ordinary shares

Shareholder Meetings

Sydney Shareholder Meeting

Time	1.00pm
Date	Friday 20 March 2020
Venue	Wesley Conference Centre
Location	220 Pitt Street Sydney

Adelaide Shareholder Meeting

Time	1.00pm
Date	Friday 27 March 2020
Venue	Adelaide Convention Centre
Location	Panorama Rooms, North Terrace Adelaide

Perth Shareholder Meeting

Time	1.00pm
Date	Tuesday 31 March 2020
Venue	Pan Pacific Perth
Location	207 Adelaide Terrace Perth

Design: MDM Investorcom
Printed on environmentally friendly paper

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Investments Limited