

# DEEP VALUE MICROCAP FUND PRESENTATION

Four Seasons Hotel, Sydney  
Friday 23<sup>rd</sup> April 2010



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# WHAT HAS HAPPEND IN THE MARKET

GFC Period (October 2007-March 2009)

- GFC created a binomial market scenario
- Near systemic collapse of financial system
- Panic spread, bank run in some countries
- Forced selling by fund managers
- Highly depressed pricing
- Compelling long term value opportunities

# MACROECONOMY. IMPACT OF GFC

- Year 2009: All advanced economies go into deep recession
- Australia avoids recession

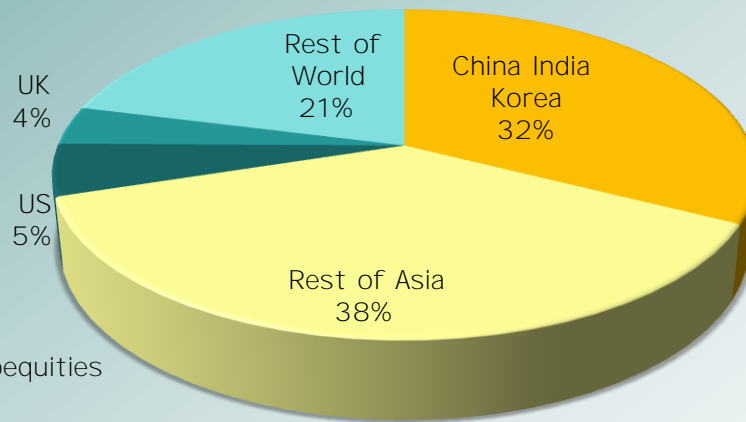
Country	2009 Real GDP	Unemployment Rate
France	-2.4%	9.5%
Germany	-5.3%	8.0%
Japan	-5.4%	5.4%
UK	-4.4%	7.6%
US	-2.7%	9.3%
Australia	+0.8%	6.0%

\* Source IMF

# WHY AUSTRALIA AVOIDED A RECESSION

- Because of the strong relationship with Asia
- Top 4 export markets (54%) for Australia are in Asia
- More than 70% of Australian exports go to Asian economies, Australia is an Asian play.

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Source ABS, Microequities

# GDP GROWTH OF OUR EXPORT PARTNERS

- How our top 4 trading partners fared
- Growth Accelerating into FY-11

Country	2009 GDP	2010(F) GDP	2011(F) GDP
Japan	-2.4%	+1.7%	+2.4%
China	+8.5%	+9.0%	+9.7%
Korea	-1.0%	+3.5%	+5.2%
India	+5.3%	+5.1%	+7.3%

\* Source IMF

# PARADIGM SHIFT, HERE and NOW

- China, and (to a lesser extent) India are the game changers for the world, and Australia
- 7 \ ] b average Real GDP growth rate of 7.8% since what year?
- In 2000 7 \ ] b GDP was equivalent to 12.3% of US GDP. By 2014 7 \ ] b GDP is expected to be 84.5% of US GDP (under PPP).
- In 2009 China become a net importer of Coal for the first time in its History Demand shift curve change in coal.
- Forecast seaborne Iron demand expected to rise 900Mtpa to 1800Mtpa over next 15 years (source BHP)

# AUSTRALIA, RIGHT PLACE TO INVEST, RIGHT TIME IN HISTORY

- Right export mix composition
- Leveraged to resource boom
- Population of approx 22m to capture 20+ year structural change in world economic history
- Fast advanced economy population growth rate
- End effect:
  - Higher prosperity for Australians
  - Superior economic growth
  - Relative superior outlook for equity market

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Risk of Political Instability (Rank)	
1. Finland	9.90
2. Australia	9.54
3. Denmark	9.49
4. Switzerland	9.33
5. New Zealand	9.27
6. Sweden	9.21
7. Norway	9.07
8. Luxembourg	9.02
9. Austria	8.98
10. Chile	8.80

Source IMD World Competitiveness 1995-2009

Global Corporate Governance Ratings	
1. Ireland	7.44
2. UK	7.36
3. Canada	7.35
4. Australia	7.32
5. US	7.18
6. Netherlands	6.60
7. South Africa	6.49
8. New Zealand	6.42
9. Finland	6.41
10. Switzerland	5.96

Source GovernanceMetrics International

# SO WHERE ARE WE NOW?

## World Regional Prospects



### Slow recovery in progress

- | With exception of Germany & UK facing structural competitive challenges
- | Growth to resume, but below world pace



### Confidence has turned

- | Expected to resume +3.0% GDP Growth in 2011
- | Unemployment to begin gradual decline



### China and India driving geographic boom

- | Japan is lagging its regional peers
- | SE Asia to benefit from Chinese growth

World economic recovery starting to gather momentum

Asia leading the world Recovery, Australia highly exposed to Asian Growth engine

### Risks?

Asset bubbles  
Credit availability  
Regional Crisis

# SO WHERE ARE WE NOW?

## Australia

- All Ords Market Index at approx 4950 points (20/04/2010)
- Needs to rise 37% to match November 2007 level
- Domestic Unemployment has peaked at 5.8%
- We expect 3.5% - 4.0% 2011 GDP Growth for Australia
- Expect economy to surprise on the upside
- Tight supply, labour market and capacity constraint a concern/challenge for government policy

# BACK TO OUR FUND

## Quick Overview



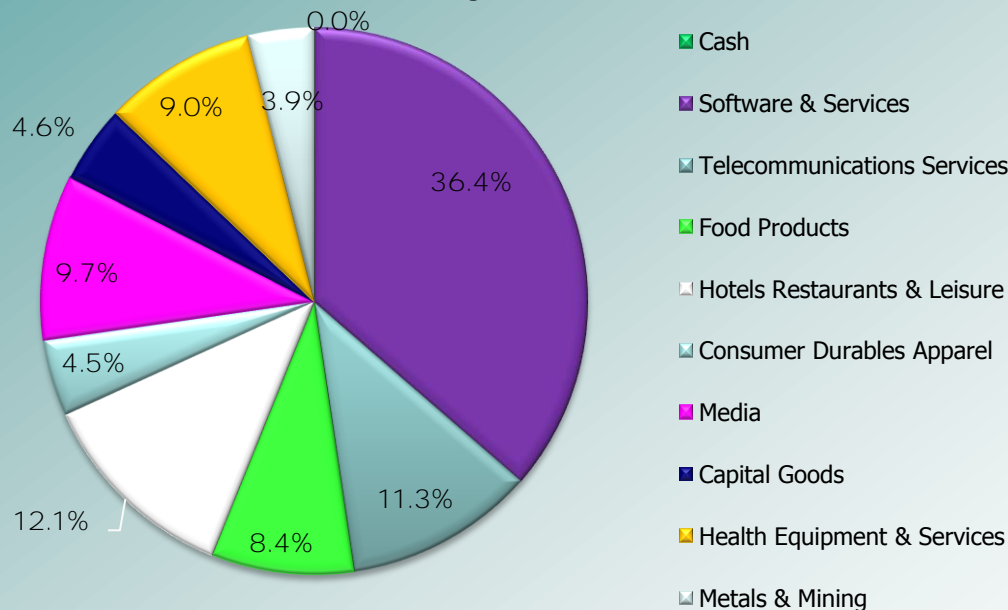
- Long term investment philosophy
- Three core values;
  - Growth
  - Knowledge: Humility
  - Management: Competency & Integrity/Trust
- Currently 17 stocks, high conviction, long term
- Good businesses, growing, undervalued and managed by good management
- No debt, no derivatives, cash equities only
- Boringly simple, excitingly effective

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## Update

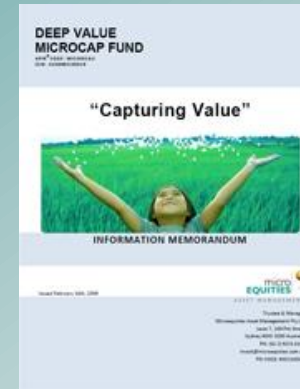


- Portfolio structure reconfigured
- Set to maximise operating leverage to fast expanding domestic economy



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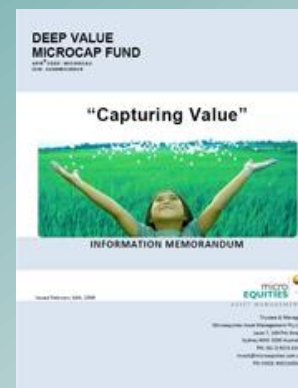
## Buying Opportunities



- Over the last three months, Fund accumulating 3 new positions
  - IT Services company at below 8.0X Historical PE, double digit Gross Yield
  - IT Software company with favourable long term structural change in core industry (valued at 70% premium to current share price)
  - Mining services company, at around 7.0X, no debt, high cash position, earnings cycle at bottom end of the cycle
  - All companies on high earning yields, two out of the three paying high dividend yields, others likely to resume dividend payments in FY11

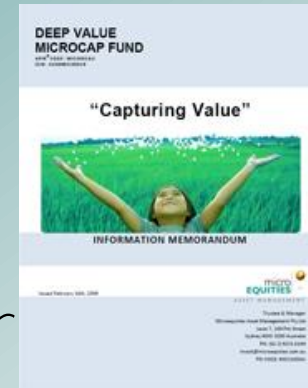
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## Prospects



- Value and growth opportunities remain compelling
- Corporate earnings growth to resume
- Early stages of economic boom
- World economic structural shift highly favourable for Australia
- Attractive Gross Dividend Yield in the Portfolio (currently 6.0%)
- We will be making our first distribution July 2010

# SUMMARY



- Economic growth visibility a lot better
- Clear world economic recovery under way
- Risks?
- Australia highly leveraged to superior Asian growth
- Our Deep Value Fund prospects:
  - Double digit returns?
- Opportunity train has not left the station
  - Higher prosperity for Australians
  - Superior economic growth

# THANK YOU!

## Contacts

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