

## DEEP VALUE MICROCAP FUND UPDATE, MAY 2011 PERFORMANCE UPDATE

Dear Investor,

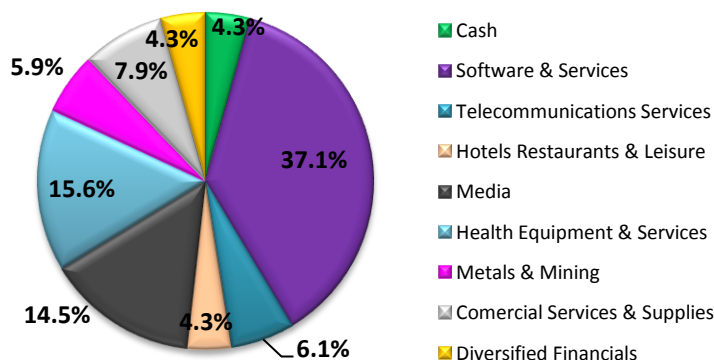
### Markets and economy

We must be careful in not reading too much into Australia's 2<sup>nd</sup> quarter GDP number (-1.2%). It is a number that is completely distorted by one of the worst floods in history that affected a state that holds around 20% of the country's population. The terrible Queensland floods brought the region's rich mining activity to a halt. The GDP figure is cluttered with the ill effects of that natural disaster. What is becoming evident however is that a new mantra of fiscal conservatism has taken place, not in government, but with our people. Australia's household current savings ratio has climbed to just over 10%, its highest levels since the mid eighties. Why households have decided to increase their savings in the midst of a 20 year economic expansion and upon a labour market that enjoys one of the highest levels of employment in the Western World is difficult to explain. Perhaps our mindset is still reeling from the effects of the post GFC world. Whatever the reason might be, it is undoubtedly having effect on consumption. Retail consumption remains markedly weak, down 0.1% over the last quarter and flat YoY. The weakness is fueling notions of a "two speed" economy. Whilst we do not subscribe to that notion, it is admissible that one of the side effects of our resource boom, a record breaking Australian dollar, is placing pressure on our non commodity export businesses, some of which our Fund owns. This is however an addressable issue; capable management teams will modify their business operations to attain natural currency hedges.

**Microequities Deep Value Microcap Fund returned a negative -5.93% versus the All Ordinaries Accumulation Index negative -1.89% in May; this brings the total return net of fees to 102.37% for the Fund compared to 67.57% for the All Ords Accumulation since inception in March 2009.**

Though the market did decline our Deep Value Microcap Fund has experienced a poor month in May. A number of the Fund's businesses, including our most heavily weighted position (approximately 15% of the fund) experienced price declines. Staying well clear of feeble justification, the profitability and growth of our businesses is sound. Our most heavily weighted position will attain strong double digit revenue and earnings growth in FY11. For FY12, it faces an even better growth outlook, and none of its significant clients will be up for renewal. Our businesses are strong, and in good shape. But I will be the first to admit that the patchy performance of the stock market over the last 12 months does not reconcile with the underlying growth in earnings. That breach in earnings growth and lack of price appreciation is not a constant, sooner or later money does gravitate towards the fundamentals.

*Written by Carlos Gil, Chief Investment Officer.*



\*Deep Value Portfolio as of 31<sup>st</sup> of May

Latest Unit Price	
<b>\$1.9624</b>	
Latest Fund Performance as at May 31, 2011	
<b>1 Month</b>	<b>-5.93%</b>
<b>3 Month</b>	<b>-7.48%</b>
<b>6 Month</b>	<b>-0.19%</b>
<b>12 Month</b>	<b>+10.09%</b>
<b>Inception</b>	<b>+102.37%</b>
(Returns are calculated after all fees and expenses and reinvestment of distributions)	