

## DEEP VALUE MICROCAP FUND UPDATE, DECEMBER 2009 PERFORMANCE UPDATE

Dear Investor,

### Markets and Economy

Whilst 2009 has certainly been a memorable year and one worthy of reflection and study, markets and investments are about the future, and in keeping with that perspective we shall seek to make sense of where we are and the outlook for the upcoming year, 2010.

**The market:** The Australian market is now into its tenth month of an upward trajectory, commonly referred to as a bull market. Given the average duration of bull markets, that would place us at the initial phase of this bull market. Whilst prices in many companies have recovered, the reality is that earnings are at bottom of the cycle levels. This means the market itself is not overtly overpriced due to the substantial recovery in corporate earnings that we expect to see during the course of 2010. Additionally, within our microcap universe, we have observed a number of high investment grade companies that have not enjoyed a substantial share price recovery despite their earnings performance and positive outlook. We remain confident that the Australian equity market will be a fertile ground for above average historical returns in the year ahead.

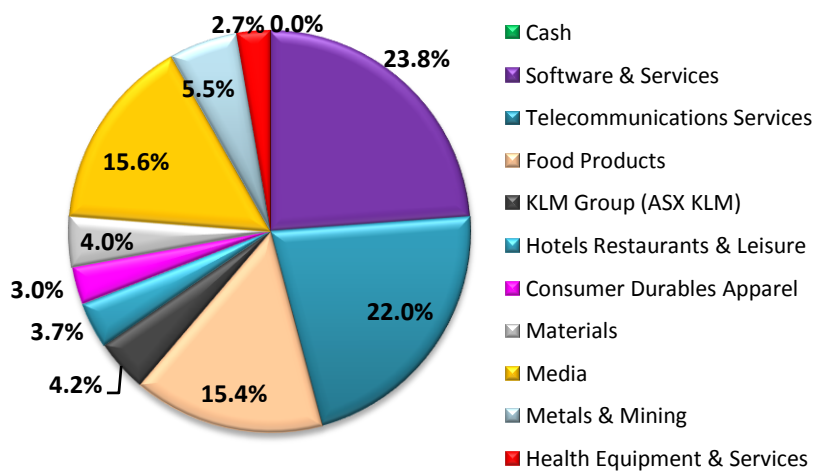
**The economy:** We believe that the Australian economy will surprise positively during 2010, and provide higher levels of economic growth than currently forecast (consensus range between 2.0 to 2.5%). Unemployment has peaked or is very close to peaking at 5.8%, meaning that job creation associated with economic expansion will exert serious labor supply pressure. Contextually, we believe that companies need to understand that a trough unemployment rate of 5.8% could provide for inhibiting capacity constraints as the economy expands in the ensuing periods to come.

### Microequities Deep Value Microcap Fund

**Our Deep Value Microcap Fund returned a +0.82% versus the All Ordinaries +3.55%, the underperformance was influenced by a subdued performance on some of the fund's largest weighted positions.**

Our Fund composition continues to be realigned to provide a structure that will be more productive within an expansionary macroeconomic context. That is not to say, that we have not rigorously observed our deep value principles, we have, but our Fund composition has been reconfigured to capitalize on an economic expansion that will reverberate with some businesses more than others. The benefits of this portfolio reconstruction will not be immediately realized, we hope to see them in the Fund's performance over the next 12 to 24 months.

The Fund's cash position was deliberately lowered in December due to large investor inflows committed for the month of January 2010 into the Fund.



### Latest Unit Price

**\$1.8962**

### Latest Fund Performance as at 31/12/09

<b>1 Month</b>	<b>+0.82%</b>
<b>3 Month</b>	<b>+13.95%</b>
<b>6 Month</b>	<b>+62.85%</b>
<b>10 Month</b>	<b>+89.62%</b>

\*Deep Value Portfolio as of 31<sup>st</sup> of December 2009