

DEEP VALUE MICROCAP FUND UPDATE, JANUARY 2011 PERFORMANCE UPDATE

Dear Investor,

Markets and economy

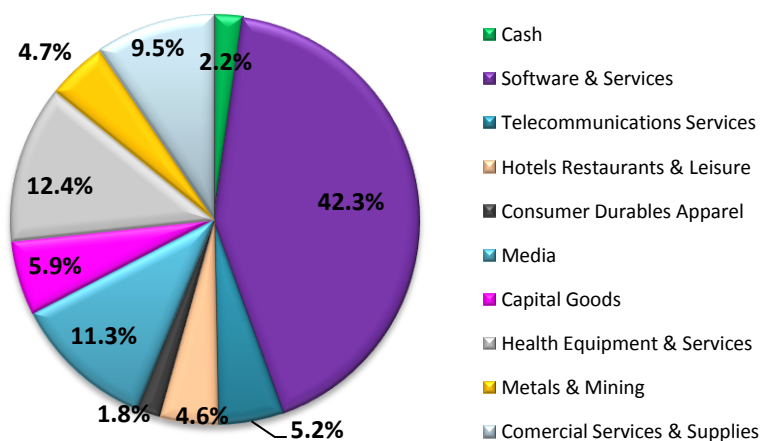
The world is uncertain place. It's subject to all sorts of external forces, geopolitical events, weather anomalies and unforeseen events. An objective overview of the history of the last century would provide most observers with a shocking, tumultuous account of events; the two biggest armed conflicts the world has ever seen, a cold war, a US Presidential assassination, the Korean War, the Vietnam War, an Oil Crisis, Watergate, the advent of new deadly diseases, Middle East conflicts and a whole host of destabilising events. But overall it was a pretty good century for equity markets. The average rate of return for the US between 1921 and 1996 was 8.06%, just a little bit above Australia's average rate of return 7.78%, the returns comfortably surpassing other major asset classes such as bonds and property. The last century did see war and upheaval but it also saw a tremendous transformation of technological advancement, medical developments and structural social changes that made our society a more prosperous, comfortable and safer place to inhabit. The significance of geopolitical events is not that they are unpredictable or far impacting; it's that business goes on, gets done, and will go on despite their habitual, unforeseeable, regularity.

Microequities Deep Value Microcap Fund returned a positive 1.28% versus the All Ordinaries Accumulation Index positive 0.07% in January; this brings the total return net of fees to 115.27% for the Fund compared to 67.01% for the All Ords Accumulation.

Despite an indifferent start to 2011 by the Australian market, our Deep Value Microcap Fund has begun on a positive note, returning 1.28% for the month. With the reporting season set to begin in February, we are looking forward to seeing our invested companies providing us with tangible evidence of earnings growth. We believe that FY11 should be a period of strong earnings growth for our portfolio and the first half earnings seasons should validate that view.

Over the last two months, the Microequities Deep Value Microcap Fund has slowly been increasing its stake in an industrial services business. The business previously worth over \$600m, is now a Microcap company, and we believe the market has erroneously priced the business. Additionally the business should provide a significant turnaround in its operating performance over the next two years. The risk/reward relationship in this particular business presents us with a highly attractive investment case. The business currently has a 4.6% weighting in the fund and this will be gradually increased to 7%.

Written by Carlos Gil, Chief Investment Officer.



*Deep Value Portfolio as of 31st of January 2011

Latest Unit Price	
\$2.0874	
Latest Fund Performance as at 31/01/2011	
1 Month	+1.28%
3 Month	+3.12%
6 Month	+9.28%
12 Month	+10.69%
Since Inception	+115.27%
(Returns are calculated after all fees and expenses and reinvestment of distributions)	