

DEEP VALUE MICROCAP FUND UPDATE, JULY 2011 PERFORMANCE UPDATE

Dear Investor,

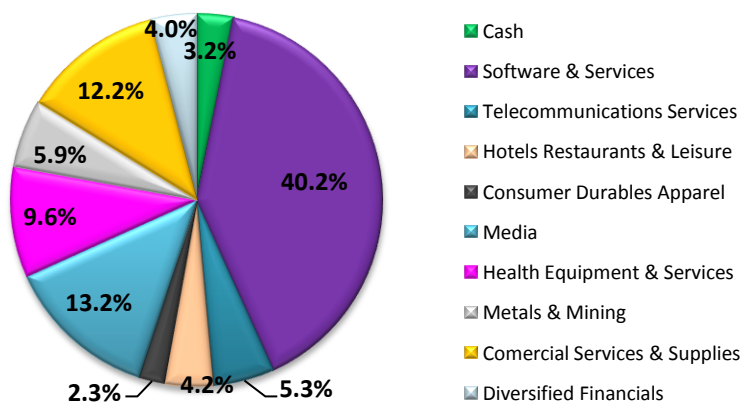
Markets and economy

We have witnessed another month where the financial media has fixated itself with an essentially political issue, that the US has the capacity and means of paying its debts as and when they fall due is not in doubt. That the government be given the procedural authorisation to do so via raising its debt ceiling has become the source of a tense and fierce political battle. Without giving undue commentary to a tedious political sideshow, it's important for investors to understand that these temporal events can fuel a sense of fear and anxiety. That's our primal hard wired instincts talking. Primal hard wired emotional based instinctive reactions are not the cornerstone of our long term value growth investment philosophy. We don't invest emotionally, we use our critical thinking and rationale to make unemotional long term based decisions that are not fueled or influenced by greed, fear or pride. We are about buying into good businesses, that are growing, that are run by competent and honest management teams, we buy these businesses at a deep discount to intrinsic value and we are going to own these businesses for many years to come. Ultimately over that journey, we expect the returns of those businesses to deliver better returns than the overall Australian equities market. Investing is about a long term commitment of capital on the basis of sound fundamental analysis. Temporal distortions will come and go, but we will continue to own our growing profitable fifteen businesses.

Microequities Deep Value Microcap Fund returned a positive +3.34% versus the All Ordinaries Accumulation Index negative -3.40% in July; this brings the total return net of fees to 106.97% for the Fund compared to 58.0% for the All Ords Accumulation since inception in March 2009.

I'm pleased to report our Fund paid its second distribution since inception (17.53 cents per unit plus franking credits). Our Fund reported strong outperformance during the month of July, with the All Ordinaries Accumulation index falling -3.4% compared to our Deep Value Fund which rose +3.34%. Whilst we welcome improved market pricing, the reality is that our Deep Value Fund portfolio remains strongly undervalued. A combination of weak equity market environment and strong earnings growth by the majority of businesses we own means that the disparity between the intrinsic value of our portfolio and the market pricing (or market value) of our portfolio has stretched out considerably over the last 12 months. The outlook for our businesses going into FY12 is strong, and while we cannot be sure when market pricing will improve, we will continue to happily own our fifteen growing businesses and pass on the dividends and franking credits to our investors as we patiently await that rather poor valuer, called the stock market, to provide a more accurate valuation of our owned businesses.

Written by Carlos Gil, Chief Investment Officer.



*Deep Value Portfolio as of 29th of July 2011

Latest Unit Price	
\$1.8259	
Latest Fund Performance as at July 29, 2011	
1 Month	+3.34%
3 Month	-3.80%
6 Month	-3.85%
12 Month	+5.07%
2 yrs compound pa	+25.61%
Inception	+106.97%
(Returns are calculated after all fees and expenses and reinvestment of distributions. Inception of Fund March 2009)	