
DEEP VALUE MICROCAP FUND UPDATE, MARCH 2009 PERFORMANCE UPDATE

Dear Investor,

Markets and economy

This past quarter has served to clarify that despite Australia's valiant efforts to ward off a recession, we face the likelihood of negative economic growth for 2009. The sheer weight and magnitude of the slowdown in our major trading partners and the continued decay in the US economy, means that despite a robust domestic performance, we will not avoid a recession. Australia's economy faces rising unemployment levels, though we must emphasize, that our performance on relative terms is still likely to be well above the world average.

We expect continued equity market volatility as the world's banking system seeks to stabilize itself from its near systemic collapse. There are some encouraging signs that some international banks are beginning to stabilize and are starting to feel the benefits of widened interest margins, however, the banking sector remains structurally weak, and the deterioration of the world economy will increase bad loan ratios placing added pressures on balance sheets and credit availability.

Investor confidence remains shaky, though there are some palpable signs of improvement. Whilst we remain coy about the duration of the current upward move in equity markets, we do recognize that it does carry some tangible benefit, it has improved confidence. Some investors have reassessed their outlook from staring at the cliff of the abyss, to start pondering the timing of an eventual world economic recovery.

Deep Value Microcap Fund

As you might know, we launched our Microequities Deep Value Microcap Fund on the 6th of March 2009, a date that coincided with the lowest point in the All Ordinaries index in almost 6 years. We believe that this is a very opportune time for the value investor.

Whilst our fund has achieved a pleasing **6.77% return** (net of fees) in the less than a month since its inception, we continue to see large pricing anomalies in a number of quality Microcap companies. We have been slow to invest, and at the time of writing we maintain around 40% of the fund's assets in cash. We plan on decreasing our cash position in the months ahead as we position the fund assets in accordance with our long term investment strategy. We believe that a number of companies in our investment universe present compelling value investments and we intend to capitalize on the current pricing dislocation of a select few number of these.

Investors that would like to know more about our Deep Value Microcap Fund please contact Microequities on 02-9231 6169 or email us at invest@microequities.com.au