

DEEP VALUE MICROCAP FUND UPDATE, MAY 2010 PERFORMANCE UPDATE

Dear Investor,

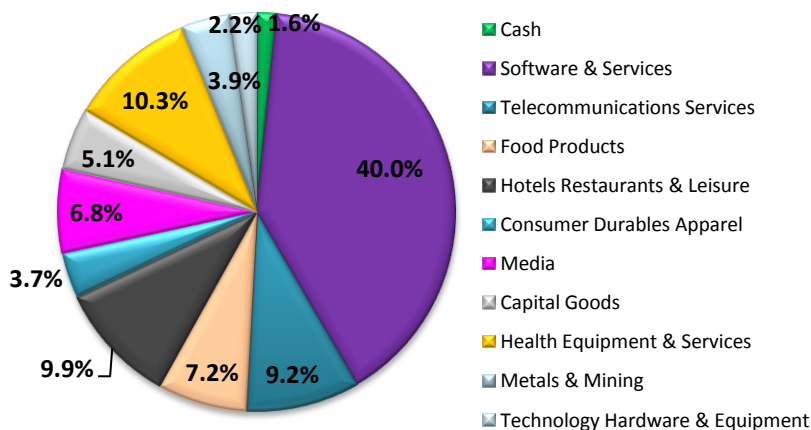
**Markets and Economy**

Markets over the short term can be sentiment driven enigmas. The GFC created many deep wounds, and some scars still haven't healed. Understandingly markets are still wary about that nasty four letter word, debt. This time around its Europe's debt, not the US's that's a concern. This time it's sovereign versus corporate that's an issue. Why the market has all of the sudden decided to zero in on an issue that was well flagged when Western European governments focused on a policy response to stem the magnitude of a severe GFC recession is a mystery. Few market observers could genuinely claim to have seen the GFC and its nasty repercussions coming. But Europe's current sovereign debt levels were well and truly flagged to markets. Back track to the end of 2008 and early 2009 and Western European governments where appeasing nervous financial markets with large stimulus packages to stem off an incoming tsunami of a recession that could have become a depression. To Keynesian economics upholders it was depression avoidance 101. To the fiscally conservative aligned debt market it is an aberration, an untenable situation. Over the last six weeks pressure by financial markets has caused governments to subside and European governments of the most debt stressed nations have begun realigning their fiscal spending. Over the short term, this will impact economic growth and is clearly a growth negative for the region. However, Europe itself has not and will not be a driver of world economic growth for the medium term. Asia has been the engine of growth and emerging economies will make up around 70% of 2011's forecast economic growth. The world will achieve growth in 2011, despite Europe's weakness; it will merely be sourced from other, faster growing regions. The markets, may however take time to realize this.

**Microequities Deep Value Microcap Fund returned a -7.59% versus the All Ordinaries -7.87% in May; this brings the total return net of fees to 83.83% for the Fund compared to 43.12% for the All Ordinaries since inception in March 2009.**

May was the worst month on month market performance since 2008. Given the positive growth outlook for Australia and the world, the almost 8% fall in the market would logically be seen as providing improved pricing value. By and large it does. Our investment universe contains some very attractively priced companies however the proposed introduction of the Resource Super Profits Tax (RSPT), has thrown uncertainty amongst the mining industry, and the mining services industries that live off it. It is a significant deterrent to new CAPEX investment, and consequently to further equity investment from us. Investors need tax clarity as prelude; there is enough uncertainty in other investment variables.

Our cash position of just under 2% has been deliberately depleted following significant investment commitments for the month of June. *Written by Carlos Gil, Chief Investment Officer.*



Latest Unit Price	
	<b>\$1.8383</b>
Latest Fund Performance as at 31/05/2010	
<b>1 Month</b>	<b>-7.59%</b>
<b>3 Month</b>	<b>-4.93%</b>
<b>6 Month</b>	<b>-2.25%</b>
<b>12 Month</b>	<b>+60.26%</b>
<b>Since Inception</b>	<b>+83.83%</b>
	(Net of Fees)

\*Deep Value Portfolio as of 31<sup>st</sup> of May 2010