

DEEP VALUE MICROCAP FUND UPDATE, NOVEMBER 2011 PERFORMANCE UPDATE

Dear Investor,

Why we never bought Healthzone Ltd (ASX HZL) for the Fund

To provide you with a much needed break from the tedium of the latest occurrences on the European debt crisis, I thought this month I would dedicate this update to give you a bit more insight into our investment process.

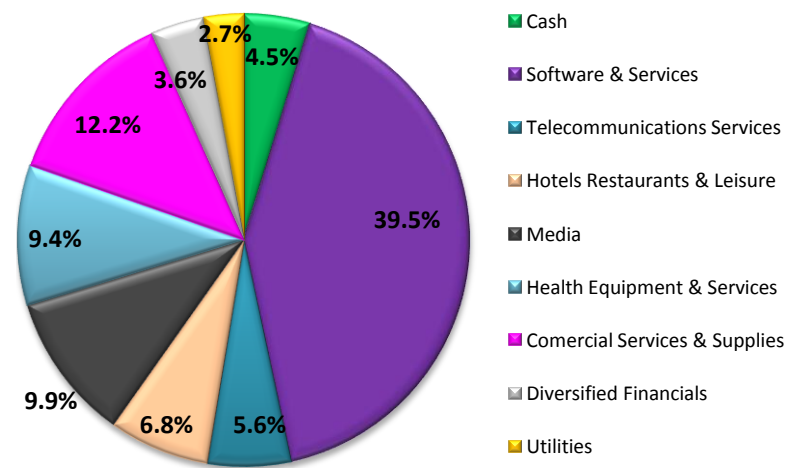
Healthzone Ltd is a company with three business divisions; *Jasham International* (a fine fragrance distributor to discount stores and pharmacies). *Healthy Life* which is a health food retail franchise business. Additionally the company also owns various health food brands and products. By looking at the reported numbers Healthzone would have seemed like an interesting “value” investment. In 2009 the company had generated EPS of 6.3 Cents, produced a \$3.0m profit, trading at around 6X PER. The company issued impressive presentations alluding to the growth in demand in the wellness market, it had ambitious growth aspirations for its Chinese operations etc. We noticed however the company did not provide adequate or qualitative segment reporting. It provided no data with respect to its sales per store or sales of products it owned or dissected reporting of its wholesale operations. We looked at the board composition to find that it contained no independent directors. When we met management and questioned them on this issue, management conceded it was an issue that they would need to address sometime in the future. That response signaled to us that good corporate governance was an afterthought, not a fundamental cornerstone of the corporate culture. A deeper look at the published accounts also showed various related party transactions, a messy international corporate structure. We also felt uncomfortable with the management team. In our research process, we came across a sufficient number of red flags to conclude within a limited due diligence that the business under the current structure and management was not a business that we wanted to continue to look at as a possible candidate into our Deep Value Microcap Fund.

On the 17th of November this month, Healthzone Ltd filed for voluntary administration, just a mere three weeks after the company had announced a successful \$10m capital raising. Serious questions about its disclosure policy should be asked by ASIC and the ASX.

Microequities Deep Value Microcap Fund returned a negative -1.03% versus the All Ordinaries Accumulation Index negative -3.43% in November; this brings the total return net of fees to 104.07% for the Fund compared to 50.19% for the All Ords Accumulation since inception in March 2009.

The Fund maintains a sizeable cash position following the sale of QMASTOR Ltd, and is presently accumulating a new position in a business that we believe should double in size over the next three years.

Written by Carlos Gil, Chief Investment Officer.



*Deep Value Portfolio as of 30th of November 2011

Latest Unit Price			
\$1.8003			
Latest Fund Performance as at November 30, 2011			
	FUND	AOAI*	OP*
1 Month	-1.03%	-3.43%	+2.40%
3 Month	+0.08%	-3.00%	+3.09%
6 Month	+0.84%	-10.37%	+11.21%
12 Month	+0.65%	-6.59%	+7.24%
2 yrs comp pa	+4.17%	-1.82%	+5.99%
Inception	+104.07%	+50.19%	+53.89%
(Returns are calculated after all fees and expenses and reinvestment of distributions. Inception of Fund March 2009) *AOAI: All Ordinaries Accumulation Index. *OP: Out-performance. Past performance is not indicative of future performance.			