

DEEP VALUE MICROCAP FUND UPDATE, OCTOBER 2009 PERFORMANCE UPDATE

Dear Investor,

Markets and Economy

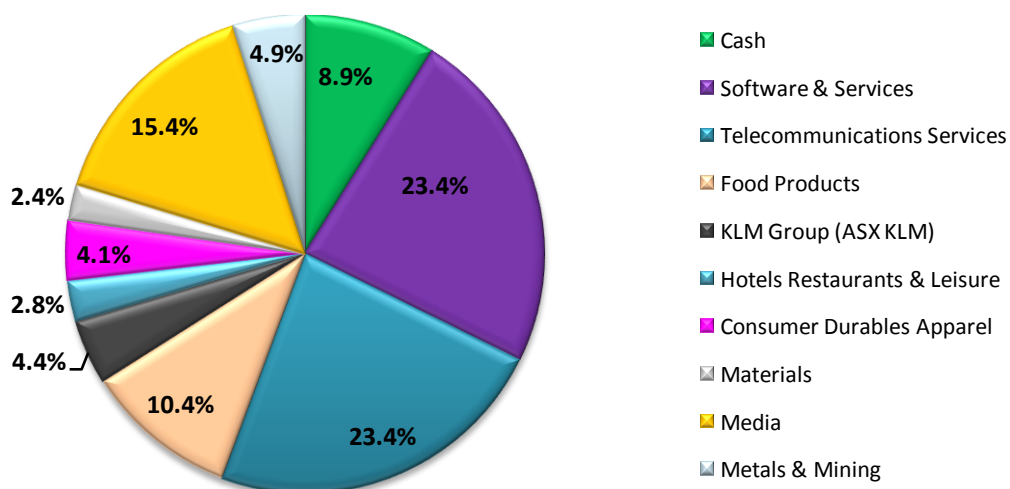
The rate rise by the RBA is an official confirmation that Australia's economic cycle has turned. We are now seeing evident signs that the Australian economy has entered an expansionary phase. Our view is that Australia's economy is likely to exceed current expectations and will provide for a higher economic growth rate than the majority of our Western counterparts during the course of 2010. It is however interesting to observe the divergent rhetoric stemming from some economists. Some are alluding to a potential pullback, a "double bottom" or a cost cutting led recovery. Occasionally economists obfuscate the reading of data, rather than digest its implications. They err on the side of ambiguity by alluding to potential or possible scenarios. In the process they dilute the very value they are meant to profess. Any economic scenario is theoretically possible, but economists should diagnose the most plausible one in light of the prevailing data. Not hide in the comfortable cushion of ambiguity. Australia has navigated from the international economic malaise with commendable fortitude. Our monetary policy has been prudently realigned to accommodate what the data suggests is a recovery that has already taken a significant foothold.

Microequities Deep Value Microcap Fund

Despite a falling market (All Ordinaries -1.95%) our Deep Value Microcap Fund month on month performance was positive +5.44%, bringing the total performance since inception to +75.46% (net of fees).

In light of a significantly different economic setting to the one we encountered during the launch of our Deep Value Microcap Fund, we have realigned some of the Fund's composition. The Fund has sold out of stakes in Amcom, Cash Converters and Infomedia and it has taken positions in companies that have business models that are more operationally leveraged to an expanding local economy. However, all new positions were taken in adherence to our deep value approach. The new companies were acquired at significant discounts to our appraised value. The realignment of our portfolio is consistent with a fundamental shift in the prevailing economic cycle.

During the month, one of Fund's holdings, KLM Group was subjected to an off market takeover offer from Programmed Maintenance Services. KLM Group shareholders have been offered a conditional all cash bid of \$0.47 per share. Our Deep Value Fund acquired its KLM Group stake at an average price of \$0.28. We believe that the bid does not offer fair value for KLM's business; it also, disappointingly provides no premium for control. We strongly oppose the conditions of the offer, and we will not be tendering the Fund's shares based on the current terms, which is not in the best interests of our investors.



*Deep Value Portfolio as of 30th of October 2009