

## DEEP VALUE MICROCAP FUND UPDATE, OCTOBER 2010 PERFORMANCE UPDATE

Dear Investor,

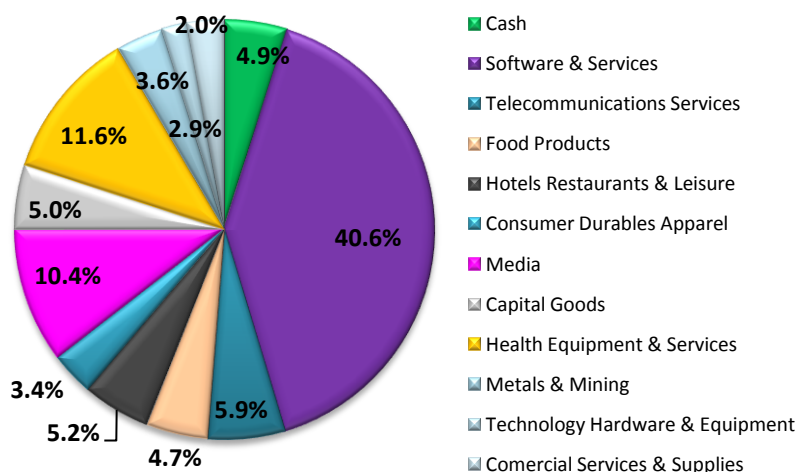
### Markets and Economy

Australia needs more people, specifically we need more workers. No matter what political persuasion one leans towards, once we put on an economist's hat, there can only be one conclusion; population growth will be paramount to maintaining our stunning economic performance. Australia's population growth has been growing at an average rate of 1.5%, which is about 60 basis points faster than the US, and one percentage point faster than Europe and China. Population growth is good for Australia as it adds clients and consumption for our corporations. It also provides Australia with a more robust and stronger domestic market, an advantage the US enjoys; when US companies attack foreign markets they do so with a significant scale advantage, giving them critical resources in winning market share abroad. But even more important than all those factors combined, Australia is facing a critical labour supply shortage. Australia's unemployment stands at 5.1%, a figure that's already very close to full employment (the OECD puts the full employment rate at between 4.0 to 6.4%). Critically our labour supply stocks are heavily depleted at a point in which our economic growth is accelerating. It is vitally important that our government provides a labour import policy that will solidify and secure our prosperity. For those that warn that an accommodating immigration policy will place further stress on our already stretched infrastructure, the irony is that a bigger population will actually help new infrastructure projects actually become viable by providing them with much needed population scale.

**Microequities Deep Value Microcap Fund returned a negative -0.49% versus the All Ordinaries Accumulation Index positive 2.17% in October; this brings the total return net of fees to 108.03% for the Fund compared to 61.92% for the All Ordinaries Accumulation Index since inception in March 2009.**

Our Deep Value Microcap Fund's underperformance for the month was primarily as a result of a company in our portfolio which provided a disappointing operational update. The operational update only alluded to first quarter numbers, and whilst these came in significantly below our expectations and that of the market in general, we remain committed to the business. Every single investment we undertake carries with it a strategic appraisal of the industry and the viability of the specific business within a longer term point of reference. As disappointing as the company's operating performance was, a single quarter does not make a company. We purchased the business on the basis of its products, industry prospects, management and compelling valuation. All these factors remain in place, and whilst our patience is finite, we will not fall into the temptation of reactionary selling. *Good things sometimes take time.*

*Written by Carlos Gil, Chief Investment Officer.*



Latest Unit Price	
<b>\$2.0243</b>	
Latest Fund Performance as at 29/10/2010	
<b>1 Month</b>	<b>-0.49%</b>
<b>3 Month</b>	<b>+8.91%</b>
<b>6 Month</b>	<b>+4.58%</b>
<b>12 Month</b>	<b>+18.56%</b>
<b>Since Inception</b>	<b>+108.03%</b>
(Net of Fees, including distributions)	

\*Deep Value Portfolio as of 29<sup>TH</sup> of October 2010