

Deep Value Microcap Fund

monthly update

Microequities Asset Management

JANUARY 2016 FUND UPDATE by Chief Investment Officer Carlos Gil

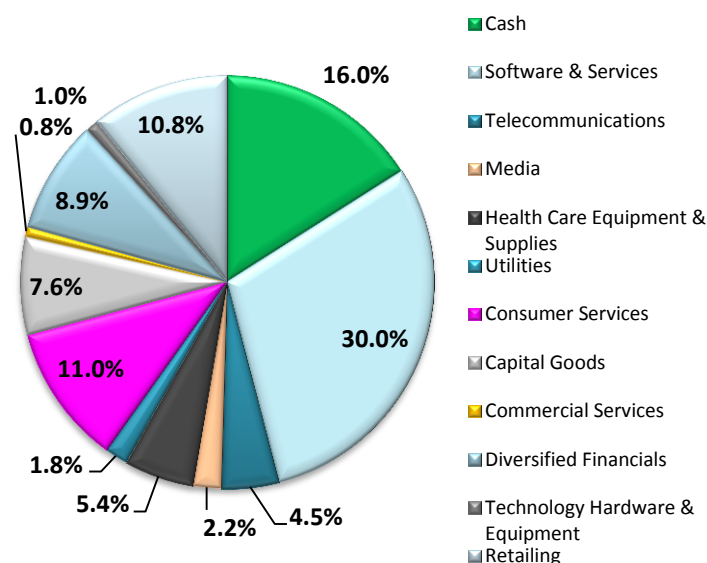
MARKETS AND ECONOMY

The time horizon prism by which financial markets view the world is extremely myopic. Medium term is next year and the long term is two years. It is a perilous exercise to see China as slowing and not acknowledge its structural transition from an intense infrastructure driven economy to a consumption and services driven economy. In order to endure any long term period of prosperity, an economy needs long periods of sustained increases in real wages. Real wage growth emerges not from low skill labor intensive industries like manufacturing but from more competitive value added activities in the services sector and complex manufacturing. China's services sector already account for just over 50% of its GDP. In 2015, Chinese consumption accounted for over two thirds of its growth. What is fueling that consumption growth? The same causality as any other consumer led economy in the West, real wages growth. China's real wages growth (amongst the highest in the world) continues to underpin not only its economic growth prospects but also its shift to a consumer led economy. Chinese real wages are expected to grow at over 6% in 2016, that is 300% higher than the UK's (one of the few Western economies actually reporting decent real wages growth). Let us not forget that the key attribute for a sustainable consumer led economy is a growing middle class with large disposable incomes, perhaps that's why Apple, Starbucks, Nike and US American automobile manufacturers are reporting strong Chinese revenue growth.

Microequities Deep Value Microcap Fund returned -4.07% versus the All Ordinaries Accumulation Index -5.38% in January; this brings the total return net of fees to 435.77% for the Fund compared to 116.78% for the All Ordinaries Accumulation Index since inception in March 2009.

The Fund is currently holding one of the highest cash positions since inception, with 16% of its assets in cash. The relatively large cash holding is not the result of a concerted strategy to put in place a more defensive approach but is merely the result of selective sell downs in some of our investee business partnerships and large inflows. It should be noted that we are continuing to selectively purchase a number of undervalued businesses which the fund currently has insufficient stakes in. As always these purchases will be judicious and measured.

[To view your current investment in the Fund login here](#)



*Deep Value Microcap Portfolio as of 31st of January.

Latest Unit Price			
\$3.9741			
Latest Fund Performance as at January 31, 2016			
	FUND	AOAI*	OP*
1 Month	-4.07%	-5.38%	+1.31%
6 Month	+12.97%	-8.82%	+21.79%
1 Year	+29.85%	-4.69%	+34.54%
3 Years comp pa	+22.22%	+5.50%	+16.72%
5 Years comp pa	+20.01%	+5.35%	+14.65%
6 Years comp pa	+18.40%	+6.08%	+12.32%
Inception comp pa	+27.47%	+11.84%	+15.63%
Inception Total	+435.77%	+116.78%	+318.99%

(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. 2, 3, 4, 5 & 6 year performance calculated as compound per annum.
Past performance is not indicative of future performance.

Microequities Asset Management Pty Ltd is a corporate authorised representative, number 462438, as appointed by Microequities Pty Ltd holder of AFSL number 287526. Application for units in the Fund is limited to investors that are Wholesale or Sophisticated investors within the meaning of Section 761G(7) and 761GA(7) of the Corporations Act 2001.