

# DEEP VALUE FUND



## MONTHLY PERFORMANCE AS AT 31/05/2018

latest unit price <b>\$4.4312</b>	return since inception (March 2009) <b>570.78%</b>	return 1 month <b>4.61%</b>	Morningstar rating* <b>★★★★★</b>
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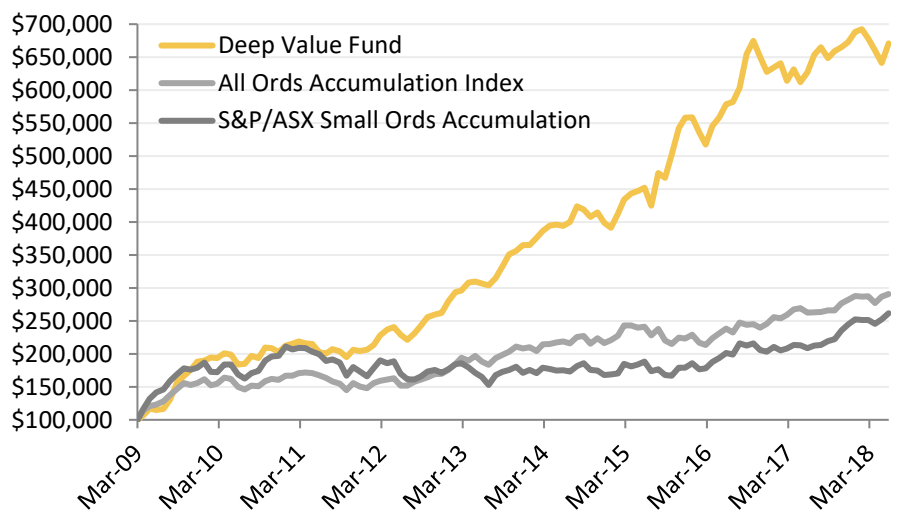
### FUND OUTLINE

Fund Manager:

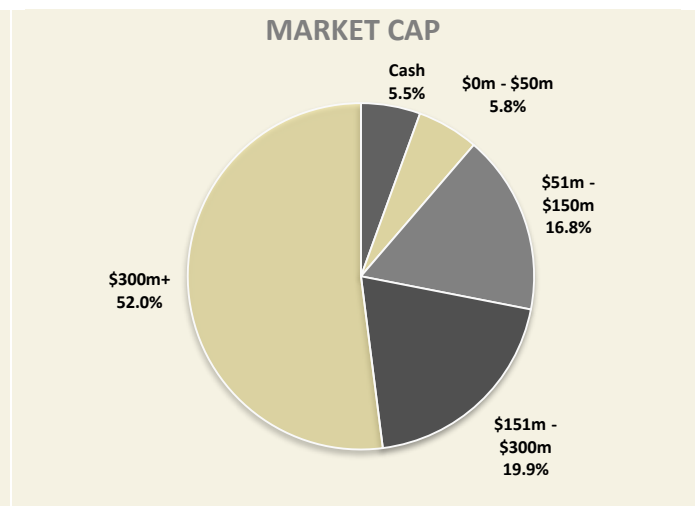
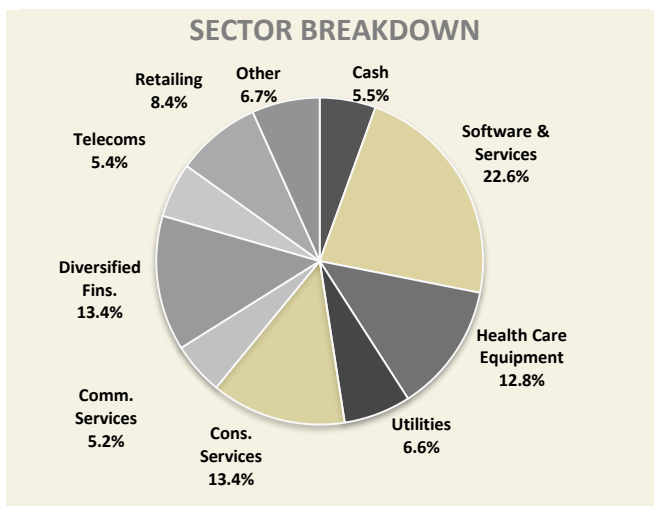
Carlos Gil (CIO)

The Deep Value Fund is a wholesale fund investing in a concentrated portfolio of undervalued, profitable and growing ASX listed microcap and smallcap companies.

VALUE OF \$100,000 INVESTED AT INCEPTION > **\$670,781**



	1 Month	1 Year	3 Year	5 Year	7 Year	9 Year	Compound p.a. since Inception	Total since inception
DVF	4.61%	6.99%	14.09%	16.94%	18.67%	21.68%	22.85%	570.78%



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## MARKET UPDATE AND COMMENTARY

The US economy continued to create jobs last month with a further 164,000 non-farm jobs added, taking the unemployment rate down to 3.9%, the lowest rate in 17 years. It is likely that the unemployment rate will fall further during the year as the US economy continues to build on momentum. This growth phase has been previously well reported. The thematic we are acutely focused on however, is the inflationary cadence across both the US, Western Europe and Australia. Wages growth in the US continues to rise modestly; increasing at an annual pace of +2.6% and this has lifted an upward trending inflation rate to +2.0%. This is still benign but at least tracking upwards. Across Europe, a surprising surge in inflation last month saw the annual inflation rate rise from +1.2% to +1.9%. The rise was well ahead of the market consensus and was in part driven by improving labour market conditions across the continent. In Australia, wage growth remains stubbornly stable at annual rate of +2.0% with our Inflation rate hovering at +1.9%. Predicting when the RBA rate will raise rates again is therefore a call on when inflation will pick up which will principally be driven by wage growth.

**Microequities Deep Value Fund returned 4.61% in May; this brings the total return net of fees to 570.78% for the Fund since inception in March 2009.**

Our largest weighted business partnership in the Fund reported its FY18 earnings. The business delivered a solid financial performance and has set itself an improved platform to grow stronger in FY19. We have rolled over our FY19 and FY20 earnings per share (EPS) forecasts for this company and this has led to a material increase in our Fund's weighted 1 Year Forward EPS forecast, which has risen from +20.2% to +21.4%.

During the month we exited from **Bulletproof Group Ltd (ASX:BPF)** after privately owned AC3 successfully completed its acquisition. We continue to see upside in several business partnerships that we own being vulnerable to M&A activity, both friendly and hostile. It will not surprise us to see further activity eventuate in the coming months. We noted in last month's report that some investee companies had experienced a widening gap between their intrinsic value and the market price. Sometimes, these gaps do not go unnoticed by competitors in the same industry.

<b>Projected EPS Growth</b>	
1 Year Forward (on a weighted basis)	<b>+21.4%</b>
<b>Projected EPS Growth</b>	
2 Years Forward (on a weighted basis)	<b>+26.2%</b>

<b>Number of companies</b>	<b>38</b>
<b>Top 5 Holdings</b> % of NAV	<b>35.8%</b>
<b>Top 10 Holdings</b> % of NAV	<b>53.9%</b>
<b>Top 20 Holdings</b> % of NAV	<b>77.8%</b>
<b>Cash Position</b> % of NAV	<b>5.5%</b>

**Important information:** This information is not intended to be financial advice. Past performance is not indicative of future performance. Microequities Asset Management Pty Ltd is a corporate authorised representative, number 462438, as appointed by Microequities Asset Management Group Limited 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.

(\*) The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision. © 2018 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Service Guide (FSG) for more information at [www.morningstar.com.au/s/fsg.pdf](http://www.morningstar.com.au/s/fsg.pdf). You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement (Australian products) or Investment Statement (New Zealand products) before making any decision to invest.