

High Income 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.

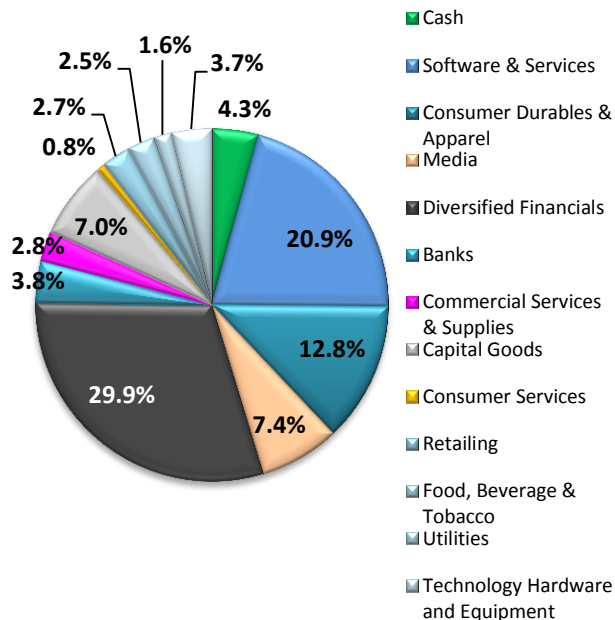
Microequities High Income Value Microcap Fund returned -1.00% versus the All Ordinaries Accumulation Index -5.38% in January.

One of our Fund's largest weighted business partnerships upgraded its intended dividend payout for the 1st half and as a result of that higher dividend payout (driven by a large growth in earnings per share) the forecasts dividend yield of the portfolio has risen markedly and solidifies the yield prospects of the Fund for the next 12 months. The Fund remains considerably undervalued.

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

Current Forecast Grossed Up Dividend Yield of the Fund*: +9.58%

*Forecast Grossed up Yield is based on internal forecasts and actual results may vary. Investors should note that Gross Dividend Yield is not a forecast distribution as distributions will depend on actual dividend income received and actual number of units on issue at the time a distribution is made.



*High Income Value Microcap Portfolio as of 31st of January.

Latest Unit Price

\$1.2557

Latest Fund Performance as at January 31, 2016

	FUND	AOAI*	OP*
1 Month	-1.00%	-5.38%	+4.38%
3 Month	-2.14%	-3.54%	+1.41%
6 Month	+4.26%	-8.82%	+13.07%
1 Year	+8.34%	-4.69%	+13.03%
2 Years comp pa	+6.33%	+2.98%	+3.34%
3 Years comp pa	+9.86%	+5.50%	+4.36%
Inception comp pa	+13.43%	+8.18%	+5.25%
Inception	+63.82%	+36.08%	+27.74%

(Returns are calculated after all fees and expenses and reinvestment of distributions. Inception of Fund March 1, 2012) *AOAI: All Ordinaries Accumulation Index. *OP: Out-performance.

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.