

PURE MICROCAP

VALUE FUND



MONTHLY PERFORMANCE AS AT 31/01/2018

latest unit price \$1.0631	return since inception (Oct 2017) 6.31%	return 1 month 2.36%
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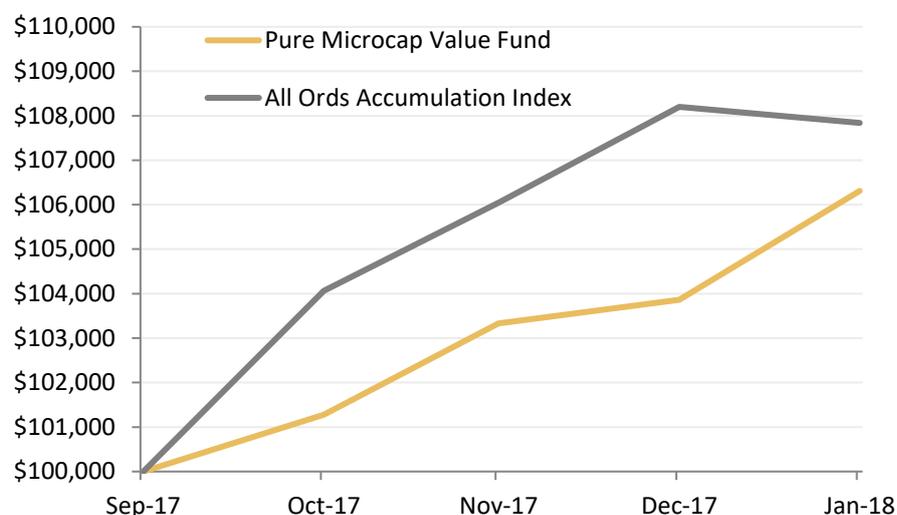
FUND OUTLINE

Fund Manager:

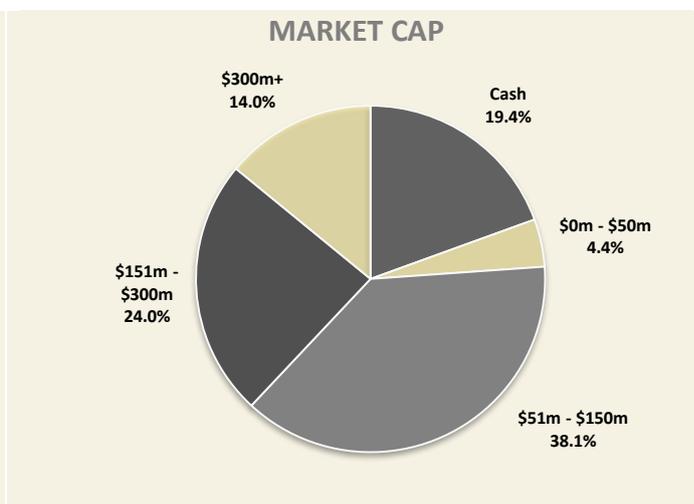
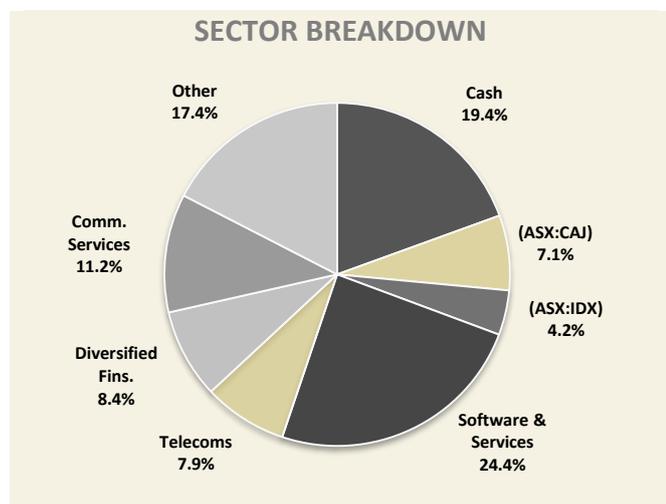
Carlos Gil (CIO)

The Pure Microcap Value Fund is a wholesale fund investing in a portfolio of undervalued, profitable and growing ASX microcap companies.

VALUE OF \$100,000 INVESTED AT INCEPTION > **\$106,310**



	1 Month	3 Month	6 Month	Total since inception
PMVF	2.36%	4.97%	-%	6.31%
All Ords Accum	-0.33%	3.63%	-%	7.84%
Outperformance	2.69%	1.34%	-%	-1.53%



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MARKET UPDATE AND COMMENTARY

Unsurprisingly, US treasury notes fell significantly last month sending 10-year treasury yields above 2.7% for the first time since 2015. The overdue upward movement also coincided with the German 5-year Bund moving above a zero yield as the ECB is signalling the end of quantitative easing. Bond prices have remained stubbornly high despite clear evidence that world economic growth is accelerating in a near synchronised manner. Inflation is likely to have bottomed across many economies last year and 2018 should see the beginning of an inflationary cycle triggered by rising wages as labour markets continue to tighten. Domestically, the headline CPI number of 1.8% that was released yesterday might have been below market expectations, but it is well above the low of 1% in 2016. Inflationary pressures are already building in the Australian economy, the non-tradable component of the CPI which comprises many services not subject to foreign competition is up 3.1% year on year. There are also upward movements in wages which will filter through the economy over the course of the year. We maintain our view that the RBA will raise rates towards the end 2018.

Microequities Pure Microcap Value Fund returned 2.36% versus the All Ordinaries Accumulation Index -0.33% in January; this brings the total return net of fees to 6.31% for the Fund since inception in October 2017 compared to 7.84% for the All Ordinaries Accumulation Index.

The Fund is now over 80% invested across 25 business partnerships. We continue to add selectively to positions at opportunistic prices.

Integral Diagnostics (**ASX:IDX**) reported a solid 1H18 result and showed strong operating margin improvements following the new management team's focus on cost efficiencies. As discussed in our previous fund updates, the business is currently the subject of a takeover proposal by rival radiology firm, Capitol Health (**ASX:CAJ**).

We made two new investments this month. The first business is a fast growing online consumer services business that the market has continued to ignore post its FY17 results. This business, adjusted for cash, trades on 12x forecast FY18 PE and has a strong runway for growth in its existing and adjacent product categories. The second is a commercial services business with multi-year contracted revenue. It trades on 7x forecast FY18 PE, with 5-10% organic revenue growth and 10% organic EPS growth. We think this low valuation metric is unwarranted.

Projected EPS Growth	
1 Year Forward (on a weighted basis)	+33.0%
Projected EPS Growth	
2 Years Forward (on a weighted basis)	+21.6%

Number of companies	25
Top 5 Holdings % of NAV	31.5%
Top 10 Holdings % of NAV	50.2%
Top 20 Holdings % of NAV	76.4%
Cash Position % of NAV	19.4%

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 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.