

# DEEP VALUE FUND



## MONTHLY PERFORMANCE AS AT 31/12/2018

latest unit price <b>\$3.6664</b>	return since inception (March 2009) <b>490.99%</b>	return 1 month <b>-4.77%</b>
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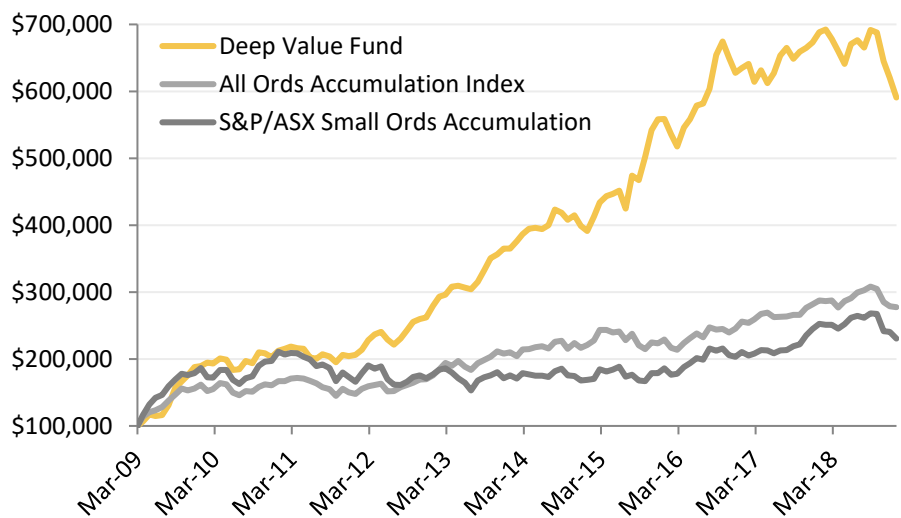
### FUND OUTLINE

Fund Manager:

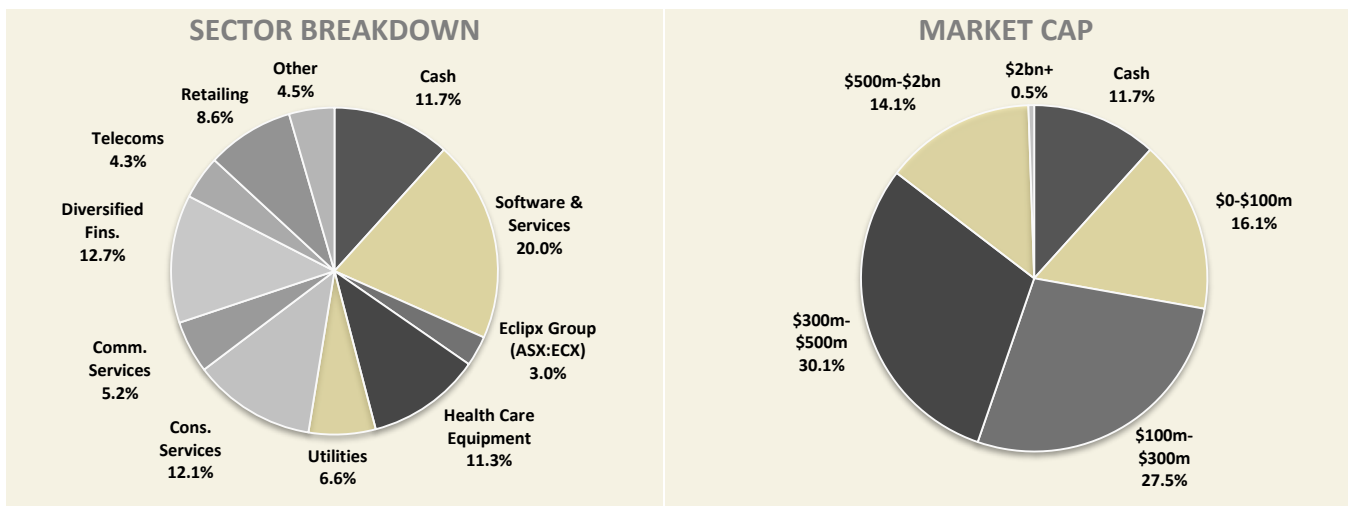
Carlos Gil (CIO)

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 > **\$590,991**



	Compound p.a. since Inception	Total since inception	9 Year	7 Year	5 Year	3 Year	1 Year	1 Month
<b>DVF</b>	<b>19.80%</b>	<b>490.99%</b>	<b>13.46%</b>	<b>16.23%</b>	<b>10.10%</b>	<b>1.90%</b>	<b>-14.16%</b>	<b>-4.77%</b>



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## MARKET UPDATE AND COMMENTARY

Chinese manufacturing contracted for the first time since 2016. The Purchasing Managers Index (PMI) for December came in at 49.4 (a reading below 50 signals a contraction in activity). Whilst a 49.4 reading doesn't signal a particularly strong contraction, it is the contextual setting around the number that might be significant. It is the first contraction since November 2016 and comes after seven consecutive months of falling export orders. The PMI encompasses both export and domestic manufacturing activity and therefore better captures economic activity levels in China. December is not a seasonally weak month for China, so it raises questions about China's short-term economic momentum. The geopolitical ramifications of Donald Trump's war may be having an effect, not only on China's exports, but also domestic economic confidence. Capital markets in China have not enjoyed a good 2018, with the Shanghai Composite Index declining by over 25% for the year. Against this backdrop, China's economic policy response has so far been muted, monetary policy has been maintained, no new stimulus packages have been announced and the strong deleveraging process which China began in November 2017 remains, though with increasing calls to turn the credit tap back on. How these developments will affect forthcoming China-US trade negotiations remains a pressing question.

**Microequities Deep Value Fund returned -4.77% in December; this brings the total return net of fees to 490.99% for the Fund since inception in March 2009.**

The investment management team undertook two main activities during the month; the sale of an underperforming specialist finance business was finally concluded. The decision to sell this business came as a result of a protracted period of fundamental underperformance. Concurrently, the investment management team has opportunistically begun to purchase an exceptionally high-quality business in the interactive media & services sector which has fallen by 24% over the course of 2018. The business has a highly probable growth pathway, exceptional unit economics, strong balance sheet and high cash flow generation. Additionally, it is one of those rare Australian businesses that presents us with the opportunity to own a potential world leader in its specific vertical. We are excited by the investment opportunity and will seek to gradually build the stake into a top 5 holding within the Fund. This month, the Fund also received the cash proceeds from the **Zenitas Healthcare (ASX:ZNT)** takeover.

<b>Projected EPS Growth</b>	
1 Year Forward (on a weighted basis)	<b>+23.3%</b>
<b>Projected EPS Growth</b>	
2 Years Forward (on a weighted basis)	<b>+17.7%</b>

<b>Number of companies</b>	<b>32</b>
<b>Top 5 Holdings</b> % of NAV	<b>40.1%</b>
<b>Top 10 Holdings</b> % of NAV	<b>56.8%</b>
<b>Top 20 Holdings</b> % of NAV	<b>79.1%</b>
<b>Cash Position</b> % of NAV	<b>11.7%</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.