

## Jencay Australia Investment Fund Quarterly report - December 2011

### Performance

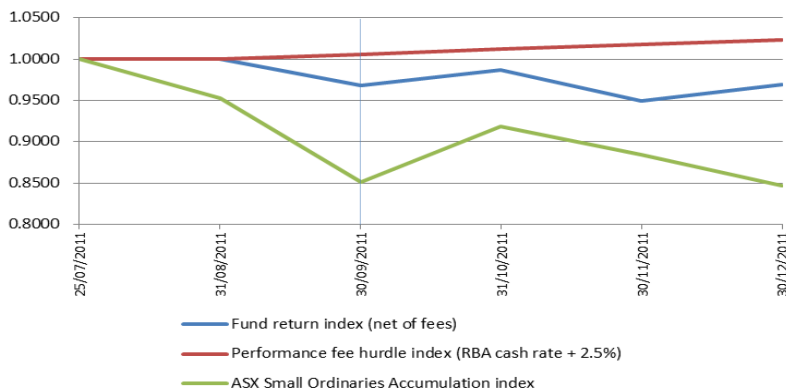
Returns are net of fees and are not annualised

	Since inception (25 July 2011)	Quarter to 31 December 2011
Fund total return	(3.09%)	0.04%
Performance fee hurdle (RBA cash rate + 2.5%)	2.39%	1.78%
ASX Small Ordinaries Accumulation Index	(15.34%)	(0.60%)

### Unit Price at 31 December 2011

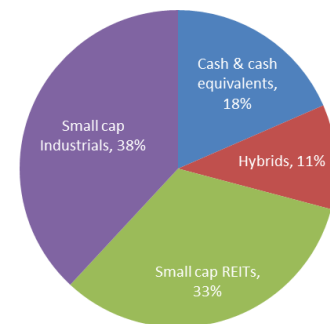
NAV per unit	AUD 0.9691
Application price (0.5% spread added)	AUD 0.9739
Redemption price (0.5% spread deducted)	AUD 0.9642

### Performance Chart



Distributions reinvested. Although inception date was 25 July 2011, fees only started accruing from 1 September 2011. Performance fees will only be levied once the Fund return index exceeds the Performance fee hurdle index. Valuations are only done on the last day of each month.

### Fund Composition



Fund size : \$4.3m

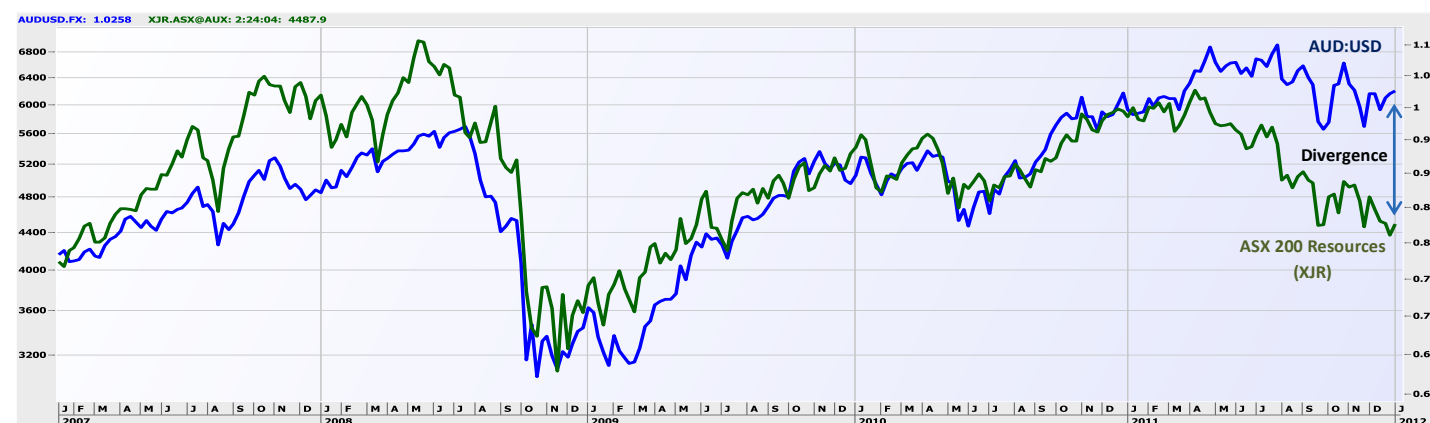
For the quarter the fund lagged its performance fee hurdle but was marginally ahead of the small cap index (the ASX Small Ordinaries Accumulation Index). Although returns for the quarter were flat, we believe that the stocks in the portfolio are compelling bargains meeting our strict selection criteria and will produce attractive returns in the long term. To give you a sense for where we are investing your funds, the top ten positions are described briefly below.

### Top 10 Positions at 31 December 2011

Weight %	Name	Summary Investment Case
18.5	Cash & cash equivalents	11% is cash on call deposit with the custodian, JP Morgan. The 7.5% balance is held in an ASX listed exchange traded fund whose only asset is a USD call deposit with JP Morgan.
9.2	Paperlinox (Hybrid and Ordinary)	The world's second largest paper merchant. The exposure to the company is held via perpetual preference shares (hybrid) and ordinary shares. The hybrid price is less than 20% of face value and the ordinary share is trading at 1/3 <sup>rd</sup> of Net Tangible Asset value (NTA). Tangible assets consist mainly of paper inventory and receivables.
7.8	Servcorp	World's second largest serviced office business behind Regus, but is considered the market leader. Founder and CEO has a 50% stake. 1/3 <sup>rd</sup> of its market cap is backed by cash with no debt. Enterprise value is approximately 3 times our estimate of EBIT in three years' time. Servcorp has strong long term growth potential and a large portion of earnings are generated outside Australia.
6.0	Fisher and Paykel Appliances	Appliance manufacturer with dominant market share in New Zealand and No.2 in Australia as well as a presence in North America, Europe and Asia. It also has one of the top consumer finance businesses in New Zealand. The company has been responsible for many of the world's appliance innovations over the last decade however the stock price is less than its NTA, on a P/E of 8x despite earnings being at cyclical lows and the company having strong growth prospects.
5.7	Astro Japan Property	Real Estate Investment Trust (REIT) holding retail and office properties in Japan. The share price is circa 1/3 <sup>rd</sup> of its Net Tangible Asset Value (NTA), on a forward earnings yield of 25% and expected distribution yield of 10%. 60% of earnings are being retained to amortise debt (gearing 60%) which should grow earnings and NTA going forward. Japanese office rentals seem to be close to bottom of cycle.
4.3	Aspen Property Group	Diversified property group holding investment property and operating a property funds management and syndication business. The share price is less than 2/3rds of its NTA and offers an earnings yield of 14% and distribution yield of 10%. NTA excludes the value of its profitable funds management/syndication business and gearing is low at 30%.
4.2	Salmat	Australia's leading provider of outsourced one-to-one communications including online and physical catalogue distribution, contact centres, essential mail and digital communication platforms. Founders still hold 40% of the company and have been adding to their holdings recently. Despite a history of excellent cash generation, earnings growth and investment in new innovation, the stock is trading on 7x historical earnings with a fully franked dividend yield of 10%.
4.0	Centro Retail Australia	Following the recently completed group restructuring this REIT has emerged as a clean and sustainable vehicle, holding one of Australia's best retail property portfolios and gearing at a reasonable 40%. The share price is 70% of its NTA and offers an earnings yield of 9% and distribution yield above 7%. Centro is a likely takeover target once pending litigation is settled.
3.9	Australand Hybrid	The issuer of the preference shares is a REIT with low gearing of approximately 40% (inclusive of these preference shares). At the current market price, the running yield of the instrument exceeds 10% with the base rate linked to Australian cash rates.
3.8	Mirvac Industrial Trust	REIT holding warehouse property in Chicago. Although gearing is a relatively high 70% the trust has recently refinanced its debt on a long term basis. The share price is approximately 40% of NTA and offers an underlying earnings yield of circa 20%. The cycle seems to have bottomed and we expect valuations, rentals and occupancy to increase from this point which will result in increased NTA and earnings. Any A\$ weakness will also be beneficial.

## Manager's Observation

The chart below compares the Australian Dollar (AUD:USD, blue and right hand axis) to movements in the ASX 200 Resources Index (XJR, green and left hand axis).



Historically there has been a tight relationship between the two lines which one would expect due to resources dominating Australian exports. Over the course of 2011 however the two charts have diverged meaningfully with the ASX resources index down almost 30% but the Australian dollar up marginally since the beginning of the year. If the historical relationship held, the AUD should be around **80c to 85c** but is just above \$1 currently.

Whilst we cannot be certain what the reason for this divergence is we are of the view that either the stock market has become more bearish on future resource prices and the currency has yet to reflect that or the Australian dollar is being held up by other factors such as demand for our sovereign bonds which seems to be a safe haven relative to the rest of the developed world. Nevertheless, we believe the AUD is significantly overvalued with far more downside than upside potential. As a result we have been actively seeking stocks that are not only bargains at today's valuation and currency level but that will benefit from a weaker AUD. Almost **50%** of the fund's holdings have assets and/or earnings that are generated in currencies other than the AUD. This should give unit holders protection against a weaker AUD or a significant commodity price decline.

## Fund Key Features

Comprehensive Terms are contained in the Information Memorandum which can be downloaded from the website [www.jencay.com.au](http://www.jencay.com.au) or sent to you upon request

<b>Custodian</b>	JP Morgan Chase Bank N.A.
<b>Administrator</b>	White Outsourcing Pty Ltd
<b>Fund auditor</b>	PricewaterhouseCoopers
<b>Inception</b>	25 July 2011
<b>Investment strategy</b>	The Fund seeks to buy securities trading significantly below fair value (bargains). Cash will be held on deposit when bargains are not available in the market. The fund will have a small cap bias in accordance with the Manager's opinion that the majority of bargains are found amongst small caps.
<b>Product type</b>	Wholesale managed investment scheme available to wholesale clients and sophisticated investors
<b>Investment universe</b>	All securities listed on the Australian Securities Exchange (ASX) and cash to be held on deposit
<b>Fund size cap</b>	\$200 million in net subscriptions
<b>Investment restrictions</b>	<ul style="list-style-type: none"> <li>▪ Maximum of 40 individual security holdings</li> <li>▪ Maximum exposure of 15% to a single security</li> <li>▪ No short positions</li> <li>▪ No leverage</li> </ul> <ul style="list-style-type: none"> <li>▪ A maximum of 10% of the fund can be invested in companies with no earnings history such as biotechnology, resource exploration, new technology</li> </ul>
<b>Minimum initial investment</b>	\$100,000
<b>Minimum additional investment</b>	\$20,000
<b>Minimum redemption amount</b>	\$20,000
<b>Base management fee</b>	1% p.a. excluding GST Management Expense Ratio 1.025% p.a. inclusive of non-recoverable GST
<b>Performance fee</b>	20% of returns above the Hurdle rate subject to a high water mark. The Hurdle rate is the Reserve Bank of Australia Cash Rate Target plus 2.5%.
<b>Entry fee</b>	None (the spreads quoted below are to cover transaction costs of buying and selling securities and are therefore payable into the Fund – they are not fees to the Manager)
<b>Buy spread</b>	0.5%
<b>Sell spread</b>	(0.5%)
<b>Redemption notice</b>	6 months' redemption notice required otherwise 5% early exit penalty

## Contact Details

<b>Trustee and Investment Manager</b>	Web	<a href="http://www.jencay.com.au">www.jencay.com.au</a>	Jencay Capital Pty Ltd Level 57 MLC Centre 19-29 Martin Place Sydney NSW 2000
	Tel	+61 2 9238 6177 +61 415 233 512	
	Email	<a href="mailto:info@jencay.com.au">info@jencay.com.au</a>	
<b>Administrator</b>	Tel	+61 2 8236 7701	White Outsourcing Pty Ltd Level 7, 20 Hunter Street Sydney NSW 2000
	Fax	+61 2 9221 1194	
	Email	<a href="mailto:registry@whiteoutsourcing.com.au">registry@whiteoutsourcing.com.au</a>	

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