

Jencay Australia Investment Fund

Quarterly report - September 2011

Introduction

Thank you to those clients that have invested in the fund to date. We are grateful for your early support.

Although the fund has not been in existence for a full quarter we felt it would be appropriate to provide unit holders with a sense for where we see value in the market and the fund composition at quarter end.

Going forward the quarterly reports will be succinct, but informative, and provide the type of information contained in this report. It will also include performance relative to the fund's hurdle of the Australian cash rate + 2.5% and any significant position changes. We will not provide commentary on macro-economic trends because there is a surplus of such information available (some would call it noise) which we often find counterproductive to the goal of finding exceptional long-term value. We would prefer to focus on our core skill of finding those hidden gems that are under the radar of most managers and that can provide good long term returns in most macro climates.

Performance in the quarter

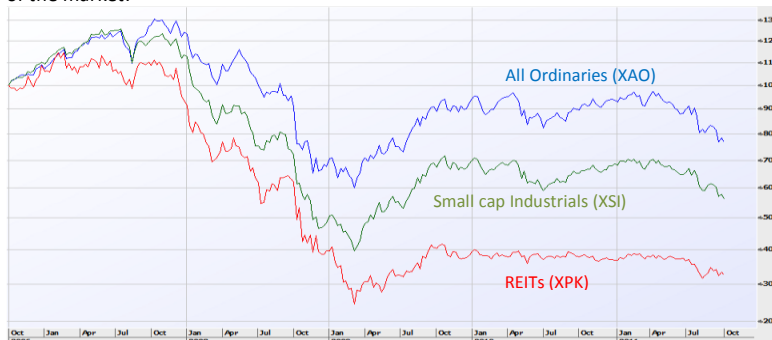
Given the very weak equity markets since inception of the fund in mid-July, the fund is down 3.1% since inception compared to the Australian All Ordinaries index decline of circa 10%. A large cash holding over the period assisted in mitigating losses. At quarter end the fund is 75% invested.

NAV per unit at 30 September 2011

AUD 0.9687

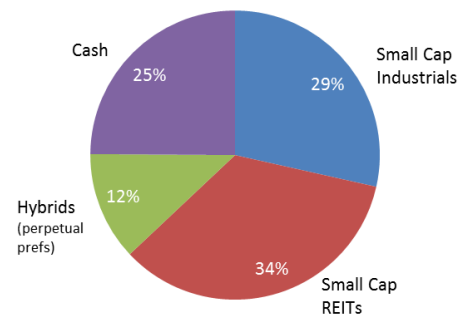
Where we see the opportunities

The fund is concentrated in Real Estate Investment Trusts (REITs) and small cap Industrial companies. The chart below illustrates the underperformance of the small cap Industrial (XSI) and REIT (XPK) indices relative to the broader market (All Ordinaries, XAO) over the last 5 years. We are finding most of the compelling bargains in these 2 ignored segments of the market.



Source: Iress (Common base of October 2006)

Fund composition



The portfolio has a large exposure to stocks with high distribution yields.

Approximately 1/3rd of the portfolio's assets and(or) earnings sit outside Australia.

Top 10 Positions (apart from cash holding)

Weight %	Name	Summary Investment Case
8.1	Paperlinx Hybrid	Perpetual preference share issued by the world's second largest paper merchant with operations in Europe, North America, Asia and Australasia. Current price is 25% of face value with a running yield approaching 30%. We believe that even in a liquidation scenario (considered unlikely) investors would receive a multiple of the current share price given the solid asset backing (consisting of paper inventory and receivables) and ordinary equity buffer in place.
7.8	Servcorp	World's second largest serviced office business behind Regus, but is considered the market leader. Operates in Australia, New Zealand, Japan, Asia, Middle East, Europe and the US. Founder and CEO has a 50% stake. 1/3 rd of its market cap is backed by cash with no debt. Enterprise value is approximately 3 times our estimate of EBIT three years out with strong long term growth potential and a large portion of earnings generated outside Australia.
6.1	Astro Japan Property	REIT holding retail and office properties in Japan. The share price is circa 1/3 rd of its Net Tangible Asset Value (NTA), on a forward earnings yield of 25% and expected distribution yield of 10%. The difference between earnings yield and distribution yield is being retained to amortise debt (gearing circa 60%) which should grow earnings and NTA going forward. Japanese office rentals seem to be close to bottom of cycle.
5.8	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 8.5x despite earnings being at cyclical lows and having strong growth prospects.
4.9	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 despite a history of excellent cash generation, earnings growth and investment in new innovation, the stock is trading on 7.5x historical earnings with a fully franked dividend yield of 9%.

Top 10 Positions (continued)

Weight %	Name	Summary Investment Case
4.2	Aspen Property Group	Diversified property group holding investment property and operating a property funds management and syndication business. The share price is only 60% of its NTA and offers an earnings yield of 15% and distribution yield of 11%. NTA excludes the value of its profitable funds management/syndication business and gearing is low at 30%.
4.1	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 11% with the base rate linked to Australian cash rates.
4.1	Australian Education Trust	REIT owning 333 childcare centres spread throughout Australia which it rents to operators on triple net leases with 10 year term remaining. Share price is approximately 70% of conservatively valued NTA with a distribution yield approaching 11% that should grow at least in line with inflation.
4.1	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 here which will result in increased NTA and earnings. Any A\$ weakness will also be beneficial.
3.3	Clearview Wealth	A young life and wealth management business with top management and an impressive product distribution network that has the potential to multiply market share from its current low base. Despite the exciting growth potential, the stock is trading at NTA and at a significant discount to its embedded value (a life insurance term for the present value of business already written i.e. any future business excluded).

Fund Key Features

Comprehensive Terms are contained in the Information Memorandum which can be downloaded from the website www.jencay.com.au or sent to you upon request

Custodian	JP Morgan Chase Bank N.A.
Administrator	White Outsourcing Pty Ltd
Fund auditor	PricewaterhouseCoopers
Inception	July 2011
Investment strategy	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.
Product type	Wholesale managed investment scheme available to wholesale clients and sophisticated investors
Investment universe	All securities listed on the Australian Securities Exchange (ASX) and cash to be held on deposit
Fund size cap	\$200 million in net subscriptions
Investment restrictions	<ul style="list-style-type: none"> ▪ Maximum of 40 individual security holdings ▪ Maximum exposure of 15% to a single security ▪ No short positions ▪ No leverage <ul style="list-style-type: none"> ▪ A maximum of 10% of the fund can be invested in companies with no earnings history such as biotechnology, resource exploration, new technology
Minimum initial investment	\$100,000
Minimum additional investment	\$20,000
Minimum redemption amount	\$20,000
Base management fee	1% p.a. excluding GST Management Expense Ratio 1.025% p.a. inclusive of non-recoverable GST
Performance fee	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%.
Entry fee	None <i>(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)</i>
Buy spread	0.5%
Sell spread	(0.5%)
Redemption notice	6 months' redemption notice required otherwise 5% early exit penalty

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