Jencay Australia Investment Fund

Quarterly report – 30 September 2015

JENCAY capital

AFS Licence Number 402024
ACN 148810413

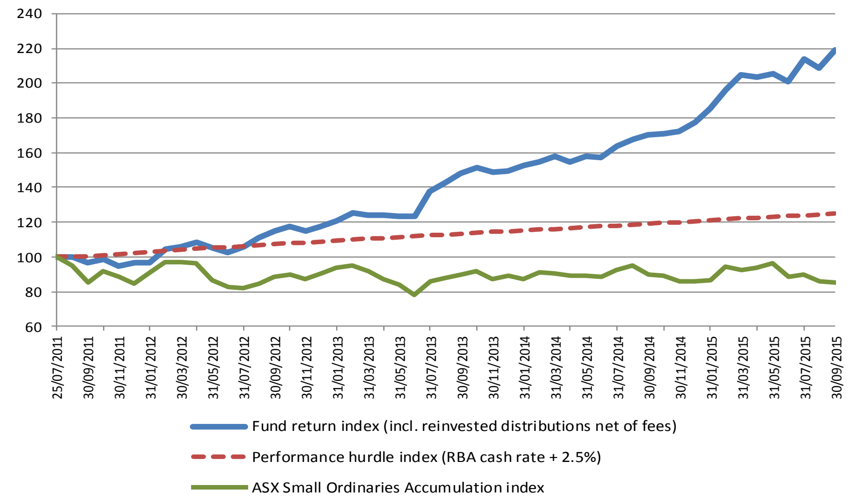
Performance

Returns are net of fees, exclude buy/sell spreads and assume reinvestment of distributions/income	Since inception (annualised)	Latest 12 months	Latest Quarter
Fund total return	**20.6%**	**28.5%**	**9.0%**
Performance hurdle (RBA cash rate + 2.5%)	5.5%	4.8%	1.1%
ASX Small Ordinaries Accumulation Index	(3.7%)	(4.9%)	(3.9%)

Unit Price

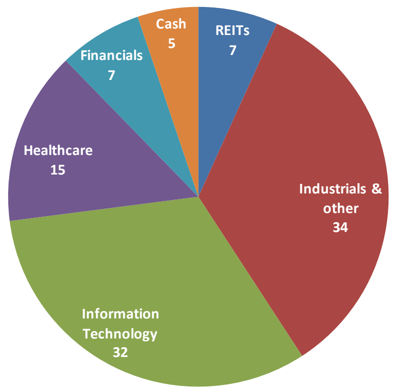
NAV per unit		**AUD 1.877**
Application price	(0.5% spread added)	AUD 1.887
Redemption price	(0.5% spread deducted)	AUD 1.868

Performance Chart



The chart tracks the movement in value of AUD100 invested in the Fund at inception, relative to the Reserve Bank of Australia cash rate plus 2.5% (performance hurdle) and relative to the ASX Small Ordinaries Accumulation index. Returns are net of fees, exclude buy/sell spreads and assume reinvestment of distributions/income.

Fund Composition



Fund size : **AUD 30.3m**

The equities markets were extremely volatile this quarter. We are pleased that our Fund managed a 9% gain in these conditions which saw both the ASX All Ordinaries Index and the ASX Small Ordinaries Index down 4% over the quarter. Paperlinx (Ords and Hybrid) re-emerged in the top 10 (discussed below) at the expense of Nearmap due to relative price movements.

Top 10 Positions

Weight %	Name	Summary Investment Case
7	**Netcomm Wireless**	Global leader in wireless communication devices with a focus on the burgeoning Machine to Machine (M2M) wireless Internet of Things. Netcomm has partnered with some of the world's leading Telco carriers such as Vodafone, Singtel and Verizon and has secured the contract for supply of the Fixed Wireless device component of Australia's National Broadband Network (NBN). We believe their traditional business plus the NBN contract underpin the share price with any growth, which could be substantial, coming free.
6	**Pro Medicus**	Radiology software for practice management and remote image viewing. The pipeline of opportunity for their world leading radiology image viewing platform continues to grow following 6 significant US client wins in the last two years. Although the stock price is looking expensive based on a simple P/E ratio, it offers further upside if it continues to win more deals – very likely given its product leadership and sales traction.
5	**Medical Developments**	A rare example of a biotech that has been profitable since IPO 11 years ago, and not raised any capital. It has been supplying Penthrox, an extremely effective analgesic (pain killer) in emergency medical settings in Australia for 30 years but only recently entered foreign markets. The company also has a world class asthma spacer, which is growing sales. The share price has been strong following European marketing approval and securing European distribution partners but further upside remains if they can execute appropriately.
5	**Integrated Research**	Global leader in performance monitoring and diagnostics software for business critical IT infrastructure. 5 of the world's 10 biggest companies use their software. With 95% of revenue generated outside Australia and 50% of costs AUD based, profits are leveraged to AUD:USD movements. Following strong price gains, upside has reduced but we believe the valuation is still reasonable as evidenced by a dividend yield above 3% (effectively in USD) and continued strong growth.
5	**Galileo Japan Trust**	REIT holding office, retail and residential property in Japan, primarily Tokyo. It is currently trading below its net tangible asset value (NTA) and on a (tax deferred) distribution yield approaching 10%. The Japanese property cycle appears to have bottomed with rentals and valuations now trending up. In contrast to GJT, Japanese domiciled REITS are currently trading significantly above NTA.
5	**Austal**	The world's leading aluminium ship builder with significant, long term US Navy contracts in addition to its commercial and other military sales. Although we have enjoyed a strong share price performance from Austal, it is still being valued on a low multiple of future earnings despite increasing momentum in winning new work and continuing to benefit from the weakening AUD.
4	**Thinksmart**	Provider of consumer credit via leading UK electronics retailers. With about 40% of the company's market cap backed by cash, the business effectively trades on a P/E multiple of only 5 to 6 times notwithstanding strong growth potential.
4	**Servcorp**	Market leader and world's second biggest serviced office business behind Regus, with the founder and CEO owning 50%. Servcorp is a prolific cash producer which enables the company to pay healthy dividends (3.5% yield) as well as add about 10% p.a. to its office space without dipping into its large cash reserves - attractive for a quality well managed company that generates a large portion of earnings outside Australia.
4	**GBST**	Leader in the provision of stockbroking and wealth management platform software. Many of their products are world class which is driving strong growth in the UK, US and Asia. For a variety of reasons the share price has dropped back substantially from its recent highs. We have been buying on the back of this weakness as we have confidence in GBST's long term prospects and its valuation is very reasonable now.
4	**Paperlinx (Ords and Hybrids)**	The Fund has held Paperlinx since inception, which has been costly at times. After placing their European subsidiaries into Administration recently, the group is left with a solid paper wholesale business operating across Australia, New Zealand and parts of Asia. It has net cash equivalent to 4/5ths of the combined market cap of the Ordinary Shares and Hybrids and should generate healthy profits and cash flows moving forward. At the current market valuation downside seems low and upside significant.

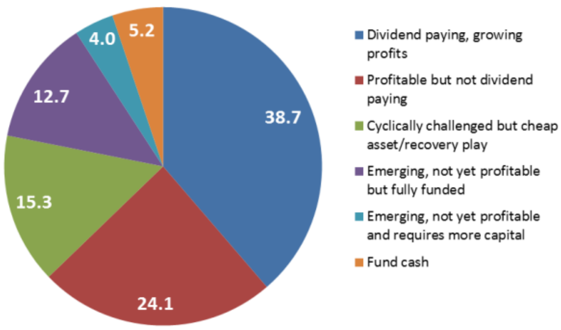
Understanding the Fund's composition from a risk perspective

In our December 2013 quarterly report we explained why the fund's cash weight was only a small component of the overall risk picture and that the discount to fair value at which we buy stocks and the low level of debt in the companies within the portfolio were at least as important in assessing risk.

Given the increased volatility in the markets of late our insightful Investment Committee requested that we extend the analysis further by categorising our portfolio into different exposure buckets, with a view to improving our understanding (and management) of the risk profile of the Fund. The output from this interesting exercise is included below:

Exposure by category of company in terms of company life cycle

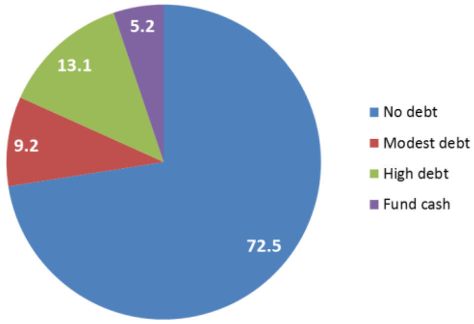
We attempted to categorise each company in the portfolio into the 5 buckets listed to the right of the chart below. In general, risk increases as we move down the list from top to bottom (ignoring the fund cash) i.e. companies that are paying dividends and growing profits are on the low end of the risk continuum whilst emerging companies that are not yet profitable and still require further capital sit on the high end of the risk continuum.



The following observations can be made:

- Only 4% of the fund is exposed to emerging companies that are not yet profitable and will require additional capital to fund them to profitability;
- A further 12.7% of the fund is invested in emerging companies that are not yet profitable but are fully funded. We have high confidence that these companies are on the cusp of profitability with significant upside when they emerge;
- About 15% is invested in companies that have underperformed historically but possess significant turnaround or asset realization potential;
- 68% of the fund is invested either in cash or companies that are growing profits;
- Overall, we believe the above chart illustrates an appropriate mix of stability and opportunity.

Exposure by level of debt in the underlying companies

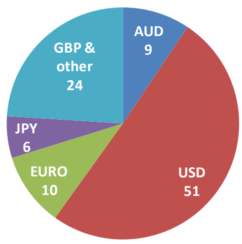


We believe the above chart depicts a comfortable position from a financial risk perspective and make the following observations:

- 72.5% of the portfolio consists of companies with net cash (no debt) on their balance sheets;
- Once the fund's 5% cash is added more than ¾ of the fund's positions have no debt exposure;
- The remaining ¼ have debt levels ranging from modest to high; and
- The net aggregated balance sheet of the fund (if you could combine all the companies into one) would be a net cash position.

Exposure by currency

Since inception of the fund we held the view that the Australian Dollar was overvalued and sought out companies with foreign currency earnings in order to mitigate this risk and potentially benefit from an AUD price decline. This has played out well but we still retain a large exposure to foreign revenues/earnings. We estimate that the aggregate underlying profits of companies in the portfolio are generated in the mix of currencies as shown in the chart to the right, providing good currency exposure outside the Australian Dollar.



We will continue to strive for healthy returns whilst keeping risk at an acceptable level.

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	25 July 2011
Investment strategy	The Fund seeks to generate attractive risk-adjusted returns over the long term and protect capital by buying securities trading significantly below fair value (bargains) and holding cash on deposit when bargains are not available in the market. The Fund has 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. To manage liquidity the Trustee may limit the quantum of monthly inflows.
Investment restrictions	▪ Maximum of 40 individual securities ▪ Maximum exposure of 15% to a single security ▪ No short positions ▪ No leverage
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
Buy spread	0.5%
Sell spread	(0.5%)
Redemption notice	6 months' redemption notice required otherwise 5% early exit penalty to be applied

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