

AUSTRALIAN

# RESEARCH

MANAGED INVESTMENTS ANALYSIS

## Listed Managed Investments

March 2009 Quarterly Review

EXTRACT

Environment for equity markets remain challenging  
but some positive signs emerge

# Contents

This is an extract from the  
March 2009 Listed Managed Investments Quarterly Review

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# LinQ Resources Fund (LRF)



<b>LMI Type</b> Listed Investment Trust	<b>Investment Assets</b> Listed and Unlisted Companies	<b>Investment Area</b> Australian and International	<b>Investment Sectors</b> Resources
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## Company Details

LRF invests mainly in Australian and international small- to medium-sized listed resource companies at all stages of development, from exploration to production. Established in March 2002 as the Golden Arrow Fund II and managed by the Rothschild Australia Group, the management of the Fund was bought out by LinQ Capital's current managing director in 2004.

## Board

G Toll (Chairman), C Donner, B Camarri, G Fariss, N Lattimore, J S Baker

## Investment Philosophy

LRF believes a concentrated portfolio of carefully chosen resource companies at various stages of development can generate absolute returns. By focusing on companies in their earlier stages of development, there is significant opportunity for high returns.

## Style and Process

LRF has developed a unique method of investing by combining convertible notes and loans with equity to manage risk and returns. Through its structuring of convertible notes, LRF has the capacity to minimise downside risk and generate yield with potential equity upside. Selection of securities relies upon the manager running a series of quantitative and qualitative assessment methods over prospective candidates. A significant part of the due-diligence process relies upon utilising management's existing industry contacts and experience in this style of investing. In May-09 the RE announced that LRF intends to shift towards a more active role in the control and management of some of its investments, which it expects should provide unit holders with greater potential for upside.

## Investment Team

Clive Donner, BCom: Managing Director; Jason Brewer, M.Eng(Hons), ARSM: General Manager; Duncan Hughes, BSc (Hons): Senior Analyst; Pierre Malherbe, M.Comm: Senior Manager.

## Aegis Comments

LRF is a relatively unique Listed Investment Trust, giving investors a diversified exposure to Australian and international small- to medium-sized resource companies at various stages of development, with a high portion of the portfolio invested in producing or near-producing assets. Over the March quarter, LRF benefitted from the bounce in the Resources sector; its portfolio value (pre-tax NTA plus dividends) grew by 11.3% compared with a 12.4% increase in the benchmark. The best performing stocks in the portfolio were LRF's strategic investments in Riversdale Mining, Atlas Iron and Lihir Gold. The worst performers were Uramet Minerals and China Gold Mines. Aegis has maintained its neutral outlook on the Resources sector. Commodity prices will depend on the pace of world (especially Chinese) economic growth on the demand side and the impact on capacity as higher-cost producers exit on the supply side. While LRF will be vulnerable to share-price weakness amongst junior miners, investment in convertible notes may offset (to some degree) a decline in capital value. These notes are usually secured and rank behind senior debt. As at 31 March 2009, LRF was trading at a discount to pre-tax NTA of 41.8%. In February, LRF announced it would discontinue the off-market withdrawal facility, given the current debt markets. In our view, this makes it harder for investors to sell units closer to pre-tax NTA per unit.

## Key investment information



<b>RATING</b>	<b>Investment Grade</b>
<b>Price (\$)</b>	0.53
As at 29 May 2009	
<b>Market Cap (\$M)</b>	119.5
<b>Shares On Issue (M)</b>	232.0
<b>Shares Traded (\$M p.a.)</b>	25.2
<b>12-month L/H (\$)</b>	0.28/1.60
<b>Listing Date</b>	January 2005

## Fees

<b>Management Fee (%)</b>	1.75
<b>Performance Incentives* (%)</b>	20.0

\*Outperformance of S&P/ASX Small Resources Accumulation Index with high watermark.

## Pre-Tax NTA Performance Analytics (including dividends)<sup>1</sup>

	ASX Small		All Ords	
	Res. Acc	3 Yr	All Ords Acc	3 Yr
	1 Yr	(p.a.)	1 Yr	(p.a.)
Excess Per. (%)	(6.23)	(5.83)	(21.67)	0.32
Beta	1.09	1.02	1.75	1.58
TE (%)	20.15	22.65	41.65	32.59
IR	(0.31)	(0.26)	(0.52)	0.01

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and will understate portfolio performance.

## Dividend Yield (%)

<b>FY06</b>	<b>FY07</b>	<b>FY08</b>
16.30uf	20.52uf	43.59uf

## Substantial Shareholders (%)

LinQ Resources Fund No 2	29.2
Austral Australia Resources & Infrastructural Investments Pty Ltd	13.8

As at 31 March 2009

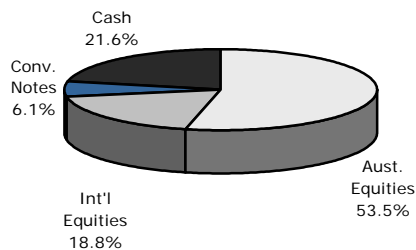
## Company contact



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[www.linqresources.com](http://www.linqresources.com)

<b>Sector</b>	<b>Industry Group</b>	<b>Industry</b>	<b>Sub Industry</b>
Financials	Diversified Financials	Diversified Financial Services	Other Diversified Financial Services

**Asset Weighting**



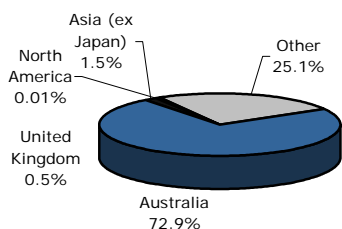
**Other Data**

**Options** 20.1M (B and C Class)

**Dividend policy** Distribution of all net taxable income of the Fund on an annual basis. As part of LRF's shift towards a more active role in its investments, it will move to a trading trust structure from 30-Jun-09 i.e. dividends will be franked, if franking credits are available.

**Capital management policy** LRF has discontinued the off-market withdrawal facility, given the current debt markets. This will be reviewed once global equity markets have stabilised. LRF will continue with an on-market buyback and weekly publication of its NTA.

**Country Weighting (Equities Component)**



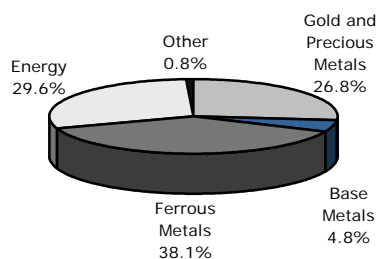
**LIC tax concessions** No

**DRP available** Yes

**LRF's Portfolio (Top 10)**

Company	Country	Portfolio (%)
Ferrous Resources Ltd	International	22.09%
Lihir Gold Limited	International	15.36%
Riversdale Mining Ltd	International	13.18%
Atlas Iron Ltd	Australia	11.65%
Continental Capital Limited	International	6.54%
Crescent Gold Ltd	Australia	1.45%
Independence Gold NL	Australia	1.34%
China Goldmines PLC	International	1.33%
Alliance Resources Limited	Australia	1.31%
Western Areas NL	Australia	1.26%
		<b>75.50%</b>

Note: by major project location  
**Sector Weighting**

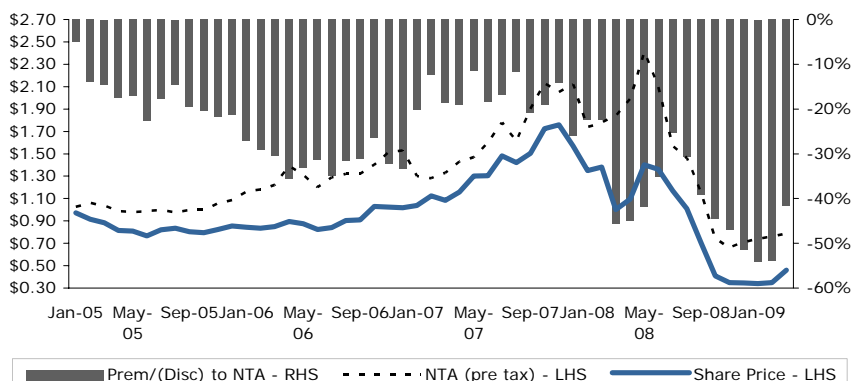


**Tax-Based Returns on Share Price and Dividends**

	Fund		All Ords Acc	
	1Yr Rtn (%)	3Yr Ann (%)	1Yr Rtn (%)	3Yr Ann (%)
No Tax (0%)	(47.0)	(10.0)	(30.2)	(6.3)
Super Fund (15%)	(48.1)	(11.3)	(30.9)	(7.1)
AWOTE* (30%)	(49.2)	(12.7)	(31.6)	(7.9)
Max Tax Rate (46.5%)**	(50.3)	(14.0)	(32.3)	(8.7)

\*Marginal Tax rate for worker on the Average Wage OTE rate + Annualised  
\*\* Max Tax Rate of 46.5% used from July 2006 (48.5% used prior to July 2006)

**NTA & Share Price Performance**



Source all figures: LRF/Aegis Equities Research/IRESS

All data as at 31 March 2009 unless otherwise specified



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