Elio D'Amato's User Group Meeting (UGM) presentation notes

Welcome to the 2009 Stock Doctor UGM.

Share investing is like a box of chocolates… (slide 7)

The All Ordinaries Index has rallied and is up over 45% since the low on 6 March 2009.

What is driving the market?

The Australian economy is strong. Strong enough to withstand the doomsayers, strong enough to withstand the worst financial crisis since the great depression, strong enough to ensure that we will prosper for many years to come and it has been exports to countries like China that have kept us in the black.

Consumers continue to propel up the economy. Confidence is high because unemployment is low, inflation is low and the Australian dollar is strong.

Is the recent rally sustainable? (slide 9)

- Are these current levels sustainable? Yes.
- Is the pace of the recovery sustainable? Most likely, the answer is no.
- Does this mean we should exit the market now? No. However, we shouldn't be surprised by the speed of the recent climb.

The start of a climb up a mountain is when you take the biggest steps. This table (slide 10) shows history's major corrections and what happened in the 12 month period afterwards. Now, depending whether you are a half glass empty or full person you might say the recent run is over or that this level can hold. This table (slide 10) teaches us one very important lesson, you should not be out of the market following a correction because if you are you often miss the majority of the upturn.

Our market…where to now?

Lincoln does not profess to know what the market is doing and/or where it is going. We specialise in selecting financially healthy, undervalued and growing companies.

Lincoln believes that it is within reason to expect a further 10 – 20% rise in the All Ordinaries Index during the remainder of this financial year. But, as you know we don't analyse the market like that. We select superior stocks.

What still concerns us?

- Personal Debt
- Analysts are now looking at 2011 forecast earnings

What excites us?

- Asia
- The Mining sector
- Other sectors include Engineering, Healthcare and Telecommunications/IT
- The Australian sharemarket. There will always be opportunities. You just have to know how and where to look for them.

Remember to read our monthly newsletter *Taking Stock* and view our three online UGMs throughout the year to gain an insight as to Lincoln's opinion going forward.

Sectors under the microscope

Gold (slide 13)

Store of wealth because it is non corrosive and is a historical currency.

Unusual commodity as there is no global scarcity due to its vast stockpiles and limited industrial usage. However, gold is still treated as a store of wealth against inflation.

Why does it shine so bright?

Strong price appreciation (36% over 12 months to 9 November 2009 in USD terms), driven by a loss of confidence in the USD and investors substituting US bonds for an inflation hedged commodity such as gold.

What affects the price of gold?

- Gold is traditionally viewed as a defensive exposure and historically moves in a countercyclical direction to the broader market.
- Prices are affected by investment demand/sentiment, scrap supply (recycling), jewellery demand, hedging and central bank purchases and sales.
- Unlike other minerals, mining supply and industrial demand has limited effect on the underlying price performance.

Useful websites:
www.nymex.com
www.gold.org
gold.searchmining.net

How to gain exposure to gold:

- Stocks, for example Lihir Gold Limited (LGL)
- Exchange traded funds such as GOLD (AUD denominated),
- Spot gold e.g. COMEX
- Swiss bank account
- Physical gold in form of bullions or coins.

Transportation (slide 14)

The Transportation sector has underperformed in the last 12 months due to:
- The global financial crisis (GFC), weak sentiment due to skimping on travel costs.
- Reduced levels of trade due to lower demand for logistics and freight.
- High fuel prices increased costs and affected margins.

When did the lights change?
- The situation has now turned around in Australia, which was one of the first countries to turn around.
- The oil price bubble has burst and fuel prices have fallen significantly from recent highs.
- The Australian dollar is strengthening and encouraging travel overseas.
- Trading activity is picking up, increasing demand for freight and logistics services.
- Government infrastructure spending will improve transportation systems and supplement capacity.

Planes, trains and automobiles:

Transportation is a mature industry covering multiple sectors, including:
- Passenger airlines, marine, road and rail: Qantas Airways Limited (QAN)
- Freight and logistics: Toll Holdings Limited (TOL)
- Transportation Infrastructure: Transurban Group (TCL).

What drives profitability?

Airlines:
- Fuel costs, particularly for the airline industry is a major cost.
- Passenger numbers versus capacity is a gauge of efficiency.

Freight and logistics:

- Economic conditions affect both commercial and consumer demand.
- Economies of scale are important for a distribution network.

Infrastructure:

- Traffic numbers (planes, cars) are important to consider.
- Debt is generally high and margins low, so consistency of earnings is key.

Useful website:
Bureau of Infrastructure, Transport and Regional Economics (www.bitre.gov.au).

Companies of interest:

- Wotif.com Holdings Limited (WTF)
- Webjet Limited (WEB)
- Flight Centre Limited (FLT)
- Qantas Airways Limited (QAN)
- Toll Holdings Limited (TOL)
- Mermaid Marine Australia Limited (MRM)

Uranium (slide 15)

Is uranium a socially responsible investment?
Uranium is typically a politically controversial commodity and generally excluded from socially responsible investment strategies because power generation produces dangerous radioactive waste. Nuclear proliferation restrictions mean numerous countries have restricted access to uranium as a fuel source.

What are the main global uranium price drivers?
Uranium is currently out of favour due to supply exceeding demand in the short term. This situation is expected to change in the long term with nuclear reactor construction and the completion of the nuclear disarmament agreement in 2013. Emissions trading/carbon credits will benefit nuclear power (low emissions) as it will improve competitiveness relative to coal and gas power plants. Global demand for energy is increasing and nuclear energy should benefit from this growth. Uranium from nuclear disarmament will be exhausted in the long term, providing a price boost due to reduced supply.

The opportunity for Australia:

- Australia is the world's third largest net exporter of uranium.
- The Kyoto protocol puts pressure on the world to adopt alternative low greenhouse gas producing power sources. This is reflected in Russia and China's plans to construct nuclear power plants for future growth.
- Technological advances should provide us with better methods to dispose of nuclear waste.

Useful websites:
http://world-nuclear.org/education/uran.htm
http://www.ga.gov.au/pdf/RR0030.pdf (Australia's uranium resources)
http://www.world-nuclear.org/

How to gain exposure to uranium:

- Energy Resources of Australia Limited (ERA)
- Rio Tinto Limited (RIO)
- Paladin Energy Limited (PDN)

Super Cheap Auto Group Limited (SUL) (slide 30)

Super Cheap Auto Group Limited (SUL) is a discount retailer of automotive parts and accessories, camping, fishing, boating and cycling equipment. The company operates though their established Super Cheap Auto and BCF (Boating, Camping and Fishing) stores and more recently growing its Goldcross Cycles chain.

Supercheap Auto has performed surprisingly well over the last 24 months given the economic conditions have both seen record fuel prices and the end of major players in the automotive industry.

Recently, it has reported sales growth to the end of October has increased by 16.1%.

Both SUL's traditional operations of Supercheap Auto and BCF continue to perform strongly and expansion will be in the form of 16 new stores and 40 refurbishments this upcoming year (FY10).

With conditions improving, particularly in the automotive sector, and favourable exchange rate movements, we expect the company to shine going forward.

Goldcross Cycles remains the black sheep in the SUL portfolio. Whilst sales improvements have been notable, this small division is still loss making and management will have to implement a successful business model before contemplating expansion plans.

The conclusion of the stimulus package will be a headwind for the Goldcross Cycles division.

Neptune Marine Services Limited (NMS) (slide 31)

Neptune Marine Services Limited (NMS) is an integrated engineering company servicing the offshore energy sector. NMS possesses manufacturing facilities in Australia, the US and the Middle East. The company provides a suite of innovative engineering services from subsea and pipeline engineering to dry underwater welding using the group's patented NEPSYS technology.

The company continues to employ a successful expansion strategy combining both organic and strategic acquisitive growth. This has served NMS well despite prevailing market conditions.

The outlook for the company is positive with improving fundamentals for the oil and gas sector and potential exposure to the considerable Gorgon project in Western Australia and the Giant North field in Qatar.

Long term demand for the company's services will be underpinned by maintenance contracts for ageing offshore infrastructure and subsea contracts to cater for increasing deepwater oil and gas production.

We are comfortable with the company's aggressive acquisition strategy due to its conservative level of gearing and strong cashflow results.

In addition, the company is currently engaged in a senior management restructure to better cater for integration of these new business segments.

However, we are concerned about the impact the strong Australian dollar will have on NMS's foreign earnings and recent failed acquisitions of Core IRM and a US based acquisition.

Note: Following the UGM, NMS released an announcement which was communicated in Lincoln's AM email on Wednesday 25 November 2009.

Telstra Corporation Limited (TLS) (slide 32)

Telstra Corporation Limited (TLS) is Australia's largest telecommunications and information services provider encompassing everything from basic phone access to 3G mobile services. Of particular note, the company owns 50% of Foxtel's cable television subscription services and 100% of Sensis, Australia's leading directory and search company.

In the wake of the sell down of TLS by the Federal Government's Future Fund and the proposal to split the company, TLS's share price has endured a tough time. Investors were reassured when management confirming its financial guidance for FY10 at the company's recent Annual General Meeting presentation.

The company's operations continue to be strong, driven by growth in the demand for its broadband services and maintaining its position as the leading telecommunications provider in Australia.

In the short term, our main concern is in regards to the government's proposed legislation to split the company. This places significant uncertainty on Telstra's future.

Whilst we feel the legislation is likely to be passed and TLS will opt to voluntarily split. A question mark remains as to the value to be received for the wholesale business in this scenario. Notably, Telstra is adamantly opposing this bill as it is presented to Parliament.

Looking forward, whilst we expect Telstra to have low single digit growth prospects due to its uncertain future, its current price may create a unique opportunity for investors.

Investors have access to a company that has paid a consistent dividend for the last seven years and is currently yielding an impressive 8.5% fully franked. Telstra is a company that may be attractive to long-term income seeking investors.

North Queensland Metals Limited (NQM) (slide 33)

North Queensland Metals Limited (NQM) is a small cap gold producer, which may be suitable for investors with a healthy appetite for risk. The company's main focus is the Pajingo Gold Mine joint venture project (60% interest) in Queensland but is exposed to a number of exploratory projects as well including Dotswood, Baal Gammon (Copper) and Twin Hills.

NQM own a 60% interest in Pajingo, a gold mine in the ramp up phase of its production cycle. NQM's performance is expected to continue to improve as production and revenue improves to full capacity over the next two years.

The company is pursuing a 'brownfields' growth strategy focusing on existing and former mines, generally considered a low risk strategy. Currently, this is reflected by the exploration and development of sites like Twin Hills, Dotswood and Moonlight in the Pajingo region to utilise capacity at the Pajingo treatment plant. The company is also potentially exposed to copper and tin through its Herberton project.

NQM has paid its maiden interim and final dividend this year, totaling 1.8 cents per share and management expect to continue paying dividends going forward. This payout is supported by strong cashflows from the company's Pajingo operations, the company's strong cash balance and lack of debt on its Balance Sheet.

The rising Australian dollar and historically defensive nature of gold exposure may prove to be a headwind for the company going forward as the economy emerges from the financial crisis.

Lincoln Indicators Pty Ltd ABN 23 006 715 573, AFSL 237740.
T 03 9854 9444. F 03 9854 9455. www.lincolnindicators.com.au

Important Information
This communication is for educational purposes but may contain general financial product advice. The advice has been prepared without taking into account your personal circumstances. You should therefore consider its appropriateness in light of your objectives, financial situation and needs, before acting on it. Investments can go up and down. Past performance is not a reliable indicator of future performance.

Lincoln Indicators Pty Ltd, its employees and/or its associates may hold interests in any stocks mentioned in this communication. This position could change at any time without notice.

Where we refer to the Lincoln Australian Share Fund (Fund) the information provided should be read in conjunction with the Product Disclosure Statement (PDS) of the Fund, which can be obtained by contacting us, or via our website. You should read and consider the PDS before making any investment decision about whether to acquire or continue to hold the product. Lincoln Indicators Pty Ltd is the investment manager for the Fund and receives income in this capacity. Equity Trustees Limited ABN 46 004 031 298, AFSL 240975 is the Responsible Entity and Issuer of the Fund.

Economic and other information taken into account in forming any opinions are subject to change and therefore opinions expressed as to future matters may no longer be reliable. Lincoln Indicators Pty Ltd its director, employees and agents make no representation and give no warranty as to the accuracy, reliability, completeness or suitability of the information contained in this communication and do not accept any responsibility for any errors, or inaccuracies in, or omissions from this communication; and shall not be liable for any loss or damage howsoever arising (including by reason of negligence or otherwise) as a result of any person acting or refraining from acting in reliance on any information contained herein. No reader should rely on this communication, as it does not purport to be comprehensive or to render personal advice. This disclaimer does not purport to exclude any warranties implied by law that may not be lawfully excluded.

This information is current as at 9 November 2009, unless otherwise stated. Information in this communication is subject to change without notice.