

Product Assessment

Report data as at 31 May 2013
Rating issued on 14 Dec 2012

WAM Active Limited

WAM Active Limited (ASX code - WAA) was the third listed investment company's (LIC's) launched by Wilson Asset Management to trade on the ASX. It was listed in January 2008 and as at 11 December 2012 had a market capitalisation of approximately \$21 million. The other LIC's are managed by the same underlying process with slightly different emphasis, WAM Capital (ASX code - WAM, listed in August 1999 & the largest at circa \$223 million) and WAM Research (ASX code - WAX, listed August 2003). Wilson Asset Management is 100% owned by Geoff Wilson and manages approximately \$452 million in total funds under management.

WAM Active's investments are managed by portfolio manager, Geoff Wilson who is the founder of Wilson Asset Management and Chris Stott, Chief Investment Officer. Wilson is somewhat the "godfather" of LIC's having championed the use of this unique closed ended structure as an alternative to open ended managed funds for many years. Zenith rates Wilson highly given his experience and track record in the market but some key man risk exists around him within the organisation.

WAM Active's approach is a Market Driven approach which seeks to take advantage of relative short term arbitrages and mispricings in the market including participating in IPO's, placements, block trades, rights issues, takeovers, listed investment companies (LIC's) trading at discounts to net tangible assets (NTA), earnings momentum surprise and market themes and trends. The portfolio is actively traded and can participate in short selling. The portfolio has no restrictions in terms of the number of stocks held, stock weightings relative to index, large/medium/small exposure, sectoral bias, and exposure to non-index securities. Its this "true" absolute investing approach which is a significant point of difference for the Manager which also extends to its cash decision making (i.e. if stock opportunities, at appropriate value, cannot be found the Manager is more than comfortable holding significant cash). For example while the cash weight has averaged 52.5% since inception to October 2012, the Manager has ranged from being 80% invested in May 2009 to 15% invested in the first quarter after launch.

WAM Active's investment process is intuitively based and fundamentally driven with a track record highlighting its successful implementation over a long time frame. Key aspects of it which will appeal to many investors is where value can't be found it won't invest and it targets a growing, fully franked dividend income stream to shareholders (average 8.4% p.a. fully franked dividend since inception, based on closing price of \$1.075 and final dividend to end of 2012).

For investors seeking this profile of investment (i.e. small / micro cap & absolute return) Zenith regards WAM Active as a strong LIC in the market given its strong heritage, track record and key personnel at the helm.

Zenith rates WAM Active Recommended.

Fund Facts

- Highly diversified exposure to small and micro cap companies.
- Absolute return orientation with significant cash held if market opportunities can't be identified
- Geoff Wilson as portfolio manager is highly regarded given his significant experience and expertise in the LIC segment of the market

APIR Code

ASX:WAA

Asset Class

Australian Shares

Sub-Asset Class

Listed Investment Companies - LICs

Investment Style

Growth

Investment Objective

WAM Active Limited (ASX: WAA) provides investors with the opportunity to invest in a company with a very actively managed portfolio of investments. The investment objectives are to deliver investors a growing stream of fully franked dividends and to preserve capital in both the short term and long term.

Zenith Assigned Benchmark

ASX All Ordinaries (Accum)

Key People

Geoff Wilson
Chairman / Portfolio Manager

Chris Stott
Chief Investment Officer

Investment Team Size

5

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
LIC	10.09	14.76	18.46
Benchmark	1.19	7.96	24.23

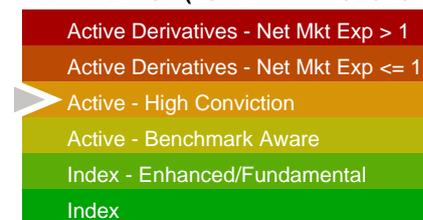
Fees (% p.a.)

Management Fee: 1.00%
Performance Fee: 20% of increase in gross value of portfolio above high water mark

ABSOLUTE RISK (SECTOR)



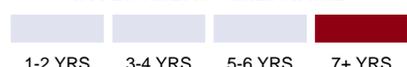
RELATIVE RISK (FUND WITHIN SECTOR)



INCOME DISTRIBUTIONS PER



INVESTMENT TIMEFRAME



APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

In assessing the performance of LICs, it is vital to understand how their structure affects the final performance figures as it is materially different to unlisted funds. As listed companies, the portfolio returns generated are exposed to additional volatility from share price movements and can trade at significant premiums or discounts to the NTA.

In addition, the impact of pre and post-tax returns needs to be considered because LICs distribute returns net of company tax, whilst benchmark index returns are quoted on a pre-tax basis. Accordingly it is difficult to accurately compare shareholder returns to either benchmarks which do not account for tax or realised peer group LICs where the timing of company tax on realised gains differs.

As an indication however, a series of return data can be viewed on the basis of the returns generated by:

- share price and dividends:
- change in pre-tax NTA value and dividends; and
- returns generated internally by the investment portfolio.

For comparison purposes, the use of the internal portfolio returns vs. the benchmark gives the closest measure of the skill of the investment manager in generating returns. However these returns may not be able to be fully crystallised to shareholders given the potential for share price movements of WAM Active. Caution should be used in too close a comparison of these figures as share price and pre-tax asset NTA are measures which take into account company tax paid on realised capital gains and unfranked income, whereas benchmark performance is a wholly untaxed measure.

At various times when assessed on a purely quantitative basis, a LIC can trade away from its longer term average discount or premium to NTA which may represent a period of good buying opportunity. While these can be periods to boost investment returns when buying at a deeper discount, there is no guarantee that any gain through positive movement in the discount to NTA can be crystallised. Potential investors must keep in mind that while discount opportunities may frequently present themselves there is no guarantee that management will be able to close the price to NTA gap.

PORTFOLIO APPLICATIONS

WAM Active will suit investors seeking a liquid (i.e. ASX listed), transparent (portfolio "look through" available) and high yielding exposure to Australian equities which is managed in an absolute return manner in that it is prepared to invest across the full market capitalisation of stocks and hold cash at various points if "value" can't be found. WAM Active has tended to have a small / micro cap bent given the Manager has found this to be an attractive source of alpha given this end of the market tends to be less researched. To this extent an exposure in WAM Active is best positioned alongside a growth orientated, large cap fund, to diversify sector, style and market capitalisation risk factors.

Given the less mature nature of companies in the small cap / micro cap sphere the sector can experience greater share price volatility. WAM Active is best suited to investors seeking

a strategy that offers the potential for high growth and are willing to tolerate the potential for significant swings in returns over the short term, particularly given its shorter term time horizon and high level of portfolio turnover (up to 8 times).

WAM Active will also suit investors seeking a consistent income stream with the Board committed to paying an increasing stream of fully franked dividends to shareholders. Based on a closing price of \$1.075 the Company has paid an average fully franked dividend of 8.4% p.a. since inception. While WAM Capital (ASX code: WAM) has offered investors a slightly higher yield, WAM Active has "held its own" in this regard bearing in mind its opportunistic, trading approach. A dividend reinvestment plan also continues to operate at 2.5% discount.

Some recent changes to legislation should deliver greater income certainty with regard to LIC's going forward as they are now allowing companies to pay dividends as long as they are solvent. Previously they could only pay a dividend if they had an accounting profit, so the company might have had the cash flow, the cash and the franking credits, but if its assets had fallen in value it could not pay a dividend. The change in legislation gives companies greater flexibility with dividend payments.

The Fund also has the potential to benefit from opportunistically shifting the portfolio to higher cash weightings (averaged 52.5% from inception until October 2012) with the Manager being one of a limited few LIC's which are truly absolute rather relative in their investment approach.

However given that as a LIC, WAM Active is listed in its own right, investors must be cognisant that WAM Active's own trading patterns may mask the effectiveness of management's investment process. Investors should also take into account whether or not the volatility associated with LIC share prices is appropriate to their needs.

One of the benefits of the LIC structure is the portfolio manager (unlike in an unlisted managed fund) does not have to sell holdings to fund redemptions which is regarded as a significant benefit in the small / micro cap space which can go through periods of illiquidity (i.e. the flight to "size" which often occurs in volatile or uncertain market conditions).

RISKS OF THE INVESTMENT

FUND RISKS

MARKET RISK: A sustained downturn in the Australian equity market could lead to negative performance. Furthermore, in market downturns, the small / micro cap sector tends to underperform the large cap sector due to its higher "beta" characteristic. While much of this high beta is delivered via the resource sector exposure in small caps (represents circa 30% of the sector) which is a sector the Manager tends to avoid, we do expect a portfolio of this orientation to underperform large caps in bear markets (i.e. flight to quality and size) and outperform in bull market conditions. The obvious caveat on this is WAA, unlike many, can defensively position itself by holding more cash in bear market conditions and has typically outperformed in all market conditions.

CONCENTRATION RISK: While some small capitalisation portfolios can be concentrated and high conviction and hence exhibiting some stock specific risk, WAM Active's portfolio

holdings tend to be typically in the 1% - 2% range and hence this risk is significantly mitigated.

CAPACITY / LIQUIDITY RISK: Excessive levels of funds under management (FUM), particularly in the small capitalisation sector of the market, has the potential to inhibit a manager's ability to trade portfolio positions effectively, and therefore limit outperformance or alpha generation potential. As a general 'rule of thumb' Zenith believes approximately 1% of the market capitalisation of the S&P / ASX Small Ordinaries index is an appropriate capacity target for an Australian small cap strategy, and that above this level it becomes increasingly difficult to generate alpha. Zenith is cognisant that assessing FUM capacity as a percentage of market capitalisation is a relatively crude measure and that capacity constraints can vary depending on the underlying investment style and approach. Zenith will therefore continue to assess capacity limits for WAM Active but at FUM levels at the time of our review (December 2012) this was not a constraint.

CONFLICT RISK: Many LIC's are exposed to conflict risk because there is a direct link typically between the Company and the Manager. In the case of WAM Active this is present with Geoff Wilson who is Chairman and also the sole director and "beneficial" owner of the Manager, Wilson Asset Management.

KEYMAN RISK: This resides with the founder of Wilson Asset Management, Geoff Wilson. While Chris Stott is the obvious successor Zenith is of the opinion should Wilson depart this would be cause for a reassessment of the current rating.

SECTOR RISK: While the LIC sector dates back to 1920's (oldest LIC is Whitfield Ltd), it is a sector (outside those LIC's with stock broking links) which has struggled to gain broader appeal in the Australian marketplace unlike its managed fund colleagues. On the flip side working in the favour of the LIC sector is a change to the Corporations Act allowing companies to pay a dividend if solvent (previous requirement was an accounting profit), which will appeal to many investors who seek a growing and consistent income stream, and recent FOFA legislation which should see more financial advisers consider LIC's as an alternative to managed funds.

BUSINESS RISK: While the tenure and stability of the investment team has been relatively strong and the organisation has a sustainable track record dating back to 1999, Wilson Asset Management is a small, boutique asset management player in a large funds management industry. The analysis of the underlying financials of Wilson Asset Management indicates it is in a sound financial position with regard to solid profitability, sound cash flow and no debt.

PERFORMANCE RISK: The Manager has all of its FUM earning a performance fee (WAM, WAX & WAA) which means its profitability is significantly linked to its ability to outperform the market. For example in FY 2010 performance fees comprised 68% of the total management and performance fee income versus 41% in FY 2011 and was a key driver behind the 50% fall in revenue year on year.

QUALITATIVE DUE DILIGENCE

BOARD OF DIRECTORS

The Board of Directors of WAM Active comprises the following individuals – Geoff Wilson, Matthew Kidman and John

Abernethy. Upon its ASX listing the initial Board also comprised Ron Walker who stepped down as a director effective September 2012.

Wilson is also the sole director and "beneficial" owner of the Manager, MAM Pty Ltd.

MAM Pty Ltd has been engaged by the Company as the Manager via an investment management agreement (IMA) dated 6 November 2007. This agreement has an initial 10 year term with an option to repeatedly extend by a further 10 years. This option is up for expiry in 6 November 2017.

The IMA in place provides for provisioning whereby the Manager may be terminated after the initial term (i.e. on 3 month notice by way of ordinary resolution, which typically requires a simple or bare majority). After the initial term it becomes much harder to terminate the Manager and even if this occurs a 12 month fee penalty applies.

Provisions also exist for the Manager to be removed but if this occurs the Manager may appoint the replacement manager, which conceivably could be a related party.

In Zenith's opinion "effectively" the Manager is "locked in" and unit holders should treat the investment this way and if they become unsatisfied with the performance of the Manager then they should sell their holding.

ORGANISATION

The chart below depicts the Wilson Group of entities and their relationship with the various listed investment companies, which combined have a market capitalisation of approximately \$437 million as at 31 December 2012.



Wilson Asset Management is an independently owned boutique funds management organisation established in 1997 by Geoff Wilson and is Investment Manager to WAM Capital, which began trading on the ASX in August 1999.

MAM Pty Ltd was initially 80% owned by Geoff Wilson and 20% by Matthew Kidman, who remains a director of all three LIC's but resigned as a member of the investment team in June 2011. In 2011 Geoff Wilson acquired the 20% of MAM Pty Ltd previously owned by Matthew Kidman to take full control of the entity.

Zenith would prefer to see a single Investment Manager in place which would make for a cleaner, simpler structure. It would also prefer to see a wider distribution of equity to key individuals beyond Geoff Wilson. Management has discussed both these issues internally and while yet to be finalised, there is a commitment to proceed on both. At the time of our review conceptually it had agreed to merge Wilson Asset Management (International) Pty Ltd and MAM Pty Ltd into a single entity and

offer equity to key stake holders but this is still in the process of being finalised.

INVESTMENT PERSONNEL

Name	Title	Tenure
Geoff Wilson	Chairman / Portfolio Manager	16 Yr(s)
Chris Stott	Chief Investment Officer	6 Yr(s)
Matthew Haupt	Equity Analyst	2 Yr(s)
Martin Hickson	Equity Analyst / Dealer	3 Yr(s)
Mark Tobin	Assistant Analyst	3 Yr(s)

The investment team table above details the investment personnel, their tenure at the firm and their job titles.

The investment team comprises five investment professionals – Geoff Wilson, Chris Stott, Matthew Haupt, Martin Hickson and Mark Tobin. While we believe the team is adequately resourced given its targeted investment approach we would prefer to see a further senior individual in the team. In June 2011 Matthew Kidman resigned and he was very much Geoff Wilson’s “2IC” having been with the Group since May 1998 and having in excess of 13 years funds management experience. Before his resignation the team had three senior, experienced individuals in Wilson, Kidman and Stott. Furthermore earlier in its inception Wilson Asset Management also had three investment professionals all with in excess of 10 years equity analysis / funds management experience.

Geoff Wilson established Wilson Asset Management in 1997 following 7 years as Executive Director, Global Institutional Broking Australian Equities at Prudential-Bache Securities (Australia). Prior to this he sat on the Australian equities desk in the New York office of McIntosh Hanson Hoare Govett (1986 – 1989), was a senior industrials analyst at Potters Partners (1982 – 1986) and was a portfolio manager at Scottish Amicable (1980 – 1982). Wilson has in excess of 30 years’ experience in equity markets and in managing equity portfolios and is held in very high regard by Zenith given his enviable long term track record of delivering alpha.

Chris Stott, Chief Investment Officer, joined Wilson Asset Management in December 2006 following 4 years at Challenger and also acts as portfolio manager for the various Wilson vehicles. Stott was appoint to the CIO role after Kidman departed having spent 10 years with the firm.

The final members of the investment team are Matthew Haupt, Martin Hickson and Mark Tobin who joined in January 2011, March 2010 and June 2010 respectively.

Haupt is an equity analyst primarily involved in the fundamental Research Driven part of the process while Hickson divides his time between equity analyst duties and a dealer function. Given Hickson’s dealing role he is more involved in the Market Driven approach, which is a trading portfolio which has an average turnover of 6.8 times p.a. Hickson, like Chris Stott, joined Wilson’s from Challenger where he was in an administrator role for 2 ½ years while Haupt previously held a portfolio manager role at Australian Executor Trustees for 4 ½ years. Tobin joined Wilson’s as an accountant and has more recently moved into an assistant analyst role.

In Zenith’s opinion while the portfolio’s are co-managed by Wilson and Stott, a reasonable degree of key person risk still rests on the shoulders of Geoff Wilson. This is regarded as the one of the biggest risk and concern with any investment in WAM LIC’s.

INVESTMENT PROCESS

One of the key beliefs within Wilson Asset Management from a top down, structural perspective is that listed investment companies (LIC’s) provide a distinct advantage to fund managers in the way they can manage money relative to their open ended managed fund peers. This advantage is primarily down to their closed ended nature which means the fund manager does not have to sell stocks in the portfolio to raise cash for redeeming investors. High levels of redemptions tend to occur when markets are at their lows and hence stocks have fallen significantly and may at this time represent good value. Conversely increased inflows tend to occur when markets are at their highs and stock prices may be inflated. LIC fund manager investment decisions are therefore not influenced by external investor flow decisions which can be a significant drag on performance.

Wilson Asset Management’s overall investment philosophy is to focus on investing in growth companies with an emphasis on under researched and undervalued stocks. These companies tend to be small to mid-cap sized listed industrial companies. The Manager’s style is best described as bottom up and absolute return focused (i.e. benchmark unaware & will hold cash if an opportunity can’t be identified).

While all three listed investment companies (WAM Research, WAM Active & WAM Capital) are managed under contract by the broader Wilson Asset Management investment team, each LIC has a slightly different investment strategy.

WAM Active (ASX Code – WAA) which we are principally concerned with employs a 100% “Market Driven” strategy which targets relative short term arbitrage and mispricings. These could include IPO’s, placements, block trades, rights issues, corporate transactions, arbitrage opportunities (i.e. LIC’s relative value discounts), trading market themes and trends. This strategy is actively traded with annual portfolio turnover of up to 8 times per annum.

WAM Research (ASX Code – WAX) employs a 100% “Research Driven” strategy where it identifies targets through micro and macro-economic trends and under researched opportunities. Within the analysis the Manager plays particular attention to modelling a company’s free cash flow and understanding its return on equity. Other important aspects are the ability to rate management, earnings growth potential, valuation and industry position. The buy / sell process is once a catalyst or event can be identified which will change the valuation given by the market to the company.

WAM Capital (ASX Code – WAM) is a combination of 50% of the Research Driven strategy and 50% of the Market Driven strategy.

SECURITY SELECTION

The Manager employs its “Market Driven” investment processes to achieve its investment objectives, which are to:

- Derive an absolute return over the longer term;

- Deliver investors an income stream in the form of fully franked dividends; and
- Preserve the capital of the Company.

The Market Driven process attempts to take advantage of relative short term arbitrages and mispricings in the market rather than investing in any individual companies or portfolio of companies for a prolonged period of time. This involves the detailed monitoring of both primary and secondary market activity with particular emphasis on new capital raisings and corporate activity.

If an investment involves the issue or sale of a security at a discount to the current market price, and the Manager believes they can make a short term profit, no further detailed analysis of information may be required. Other investments may require further analysis. This may involve the Manager meeting and having discussions with the potential investee's management, discussing at length the various dynamics of the business and if necessary the corporate transaction.

The Company's philosophy is to invest whenever opportunities are identified irrespective of whether it is a micro cap or large cap investment.

This process is active and can result in a high turnover of "trade ideas". Trade ideas can come from a myriad of sources, institutional and retail sales teams within brokers, company directors, company senior management, funds management community, WAM shareholder / investor base, SME etc. As such the WAM investment team ensure they foster and grow the relationships across these networks.

The types of Market Driven trades which might form part of this process include:

- Initial public offerings (IPO)
- Capital raisings
- Block trades
- Oversold positions
- Takeovers
- Valuation arbitrage (i.e. stocks or LIC's trading at discounts to NTA)
- Earnings momentum / surprise
- Short selling
- Market themes and trends

The investment process can use derivatives although this has occurred on an infrequent basis, usually an option collar strategy (i.e. buy a put and sell a call), which the Manager will implement to limit stock risk on a stock being held for its dividend. Listed options are the only derivatives used since inception.

PORTFOLIO CONSTRUCTION

Once a company is rated and a catalyst identified then it can enter the portfolio as a holding. The two key criteria the Manager is looking for are firstly, trading at a discount to fair value and secondly, confidence that downside risk has been assessed and minimised through fundamental analysis.

The size of portfolio positions is determined with regard to the WAM Rating Score, liquidity of the underlying company shares

and the diversification impact of the position in the portfolio. The Manager does however tend to hold portfolio positions in the following increments – 1%, 2%, 4% or 6%.

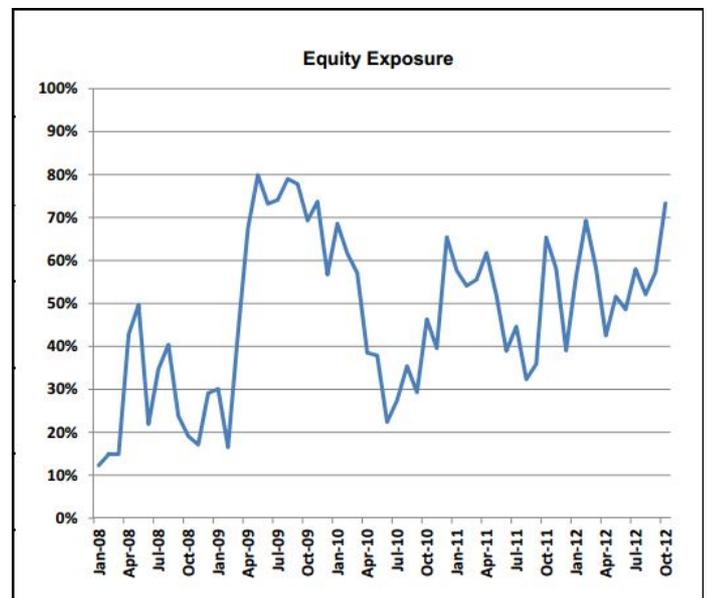
As at November 2012 the portfolio comprised 86 stocks, which is in line with the Manager's philosophy of managing and reducing market risk by diversifying the portfolio across numerous stock and multiple industry sectors.

The Manager's sell discipline is primarily driven ensuring the rationale behind each investment remains true. A position may be sold for one of the following reasons:

1. It has fulfilled the Manager's expectations and is generally trading within 5% of its fair value;
2. The catalyst which triggered an investment no longer remains true; and / or
3. The company is trading at or above the re-assessed fair value.

In terms of portfolio turnover this needs to be looked at with regard to the underlying strategy. For the Market Driven process turnover can be 8 times per annum.

If the Manager can't identify portfolio positions in the Market Driven strategies then they will hold cash and aren't concerned about holding significant cash exposure if required. The average cash position since inception has been 52.5% but the Manager has used the spectrum of holdings (high 85%, low 20%). Cash is held in the form of 30 day - 180 day term deposits with the major local banks on various staggered maturities to allow for liquidity. The chart below graphically depicts WAA's equity exposure since inception.

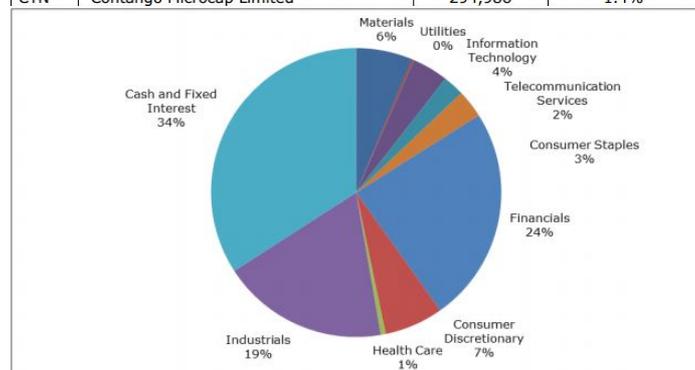


The portfolio currently does not use leverage nor futures. Very rarely options will be used but this would normally be through a collar strategy to limit downside on a position. A collar option strategy involves buying a put option and selling a call option. Option positions have always been less than 5% of the portfolio. The portfolio can short sell but again it's only ever been a small marginal overall allocation (zero as at November 2012, never been higher than 10%). The Manager uses a 10% stop loss on "shorts" as well as block trades, IPO's, capital raisings and oversold positions / earnings momentum / surprise, market

themes / trends trades.

PORTFOLIO - TOP 20 HOLDINGS (as at 30 November 2012)

Code	Company	Market Value \$	Market Value as % Gross Assets
INA	Ingenia Communities Group	746,161	3.5%
RHG	RHG Limited	676,495	3.1%
CYG	Coventry Group Limited	636,120	3.0%
BKW	Brickworks Limited	619,223	2.9%
CRZ	Carsales.Com Limited	611,098	2.8%
CCQ	Contango Capital Partners Limited	580,254	2.7%
ALS	Alesco Corporation Limited	535,048	2.5%
FXJ	Fairfax Media Limited	453,184	2.1%
CLO	Clough Limited	435,614	2.0%
TLS	Telstra Corporation Limited	429,823	2.0%
PRV	Premium Investors Limited	421,224	2.0%
SDG	Sunland Group Limited	391,700	1.8%
AGF	AMP Capital China Growth Fund	363,645	1.7%
RIC	Ridley Corporation Limited	361,663	1.7%
CSR	CSR Limited	360,651	1.7%
MYR	Myer Holdings Limited	352,625	1.6%
QAN	Qantas Airways Limited	349,177	1.6%
IVA	Ivanhoe Australia Limited	311,564	1.4%
SHV	Select Harvests Limited	308,411	1.4%
CTN	Contango Microcap Limited	294,986	1.4%



OPERATIONAL DUE DILIGENCE

RISK MANAGEMENT

Portfolio Constraints	Description
Sector, market capitalisation constraints	Nil
Stock shorts	Never been more than 10%
Max. single stock exposure	No restriction but typically <20%
Max. cash	No restriction
Leverage	Nil

There are no restrictions on the number of stocks held, stock weightings relative to index, determination of large/mid/small cap exposure, sectorial bias, index / non-index stocks or the cash allocation decision.

This lack of relative constraints is consistent with the Manager's absolute return investment philosophy.

Some of the risk management restrictions in place include – typically no single stock exposure above 10%, a 10% stop loss on any stock shorts and some other forms of trades and no gearing. The Manager's main risk management tool is its research (focused on poorly covered / undervalued companies), structure (LIC structure stops it being a forced seller when redemptions occur) and absolute approach (holds cash when can't find value).

ADMINISTRATION & OPERATIONS

DIVIDEND POLICY

The Company's full year dividend comprised an interim dividend of 4.5 cents per share (fully franked) paid on 24 April 2012 and a final dividend of 4.5 cents per share (fully franked) paid on 19 October 2012. This brings the fully year ordinary dividend to 9.0 cents, a 12.5% increase on the previous year. This equates to a 8.4% fully franked dividend yield based on a closing price of \$1.07 on 22 November 2012.

The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the Company has sufficient franking credits and it's within prudent business practices. Dividends will be made with consideration to cash flow, cash holdings and available franking credits.

WAM Active's dividend policy must comply with Government legislation and the ATO's interpretation of a company's ability to pay franked dividends.

BONUS ISSUE

In June 2012, the Board announced a 1 for 1 bonus issue of options to acquire ordinary shares in the capital of the Company. The options have an exercise price of \$1.08 per share and can be exercised at any time on before 12 December 2013. The options are currently trading on the ASX under the ASX code WAAO.

INVESTMENT FEES

The Manager is entitled to a management fee of 1.0% of gross assets and a performance fee of 20% of the increase in the gross value of the portfolio.

WAM Active, unlike WAM Research and WAM Capital, has a high water mark (HWM) embedded in its performance fee calculation. This has become standard industry practise and ensures the Manager isn't "double dipping" on the same outperformance over subsequent performance periods. While Zenith is pleased to see a high water mark in place, no hurdle exists on the performance fee. A performance hurdle is normally either a market benchmark (i.e. the All Ordinaries Accumulation Index) or the risk free rate, being cash. Furthermore most performance fees are calculated off "net" assets so as to remove the management fee cost before performance fees are paid.

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Fee	1.00% p.a.	0.69% p.a.
Description		
Performance Fee	20% of increase in gross value of portfolio above high water mark	

PERFORMANCE ANALYSIS

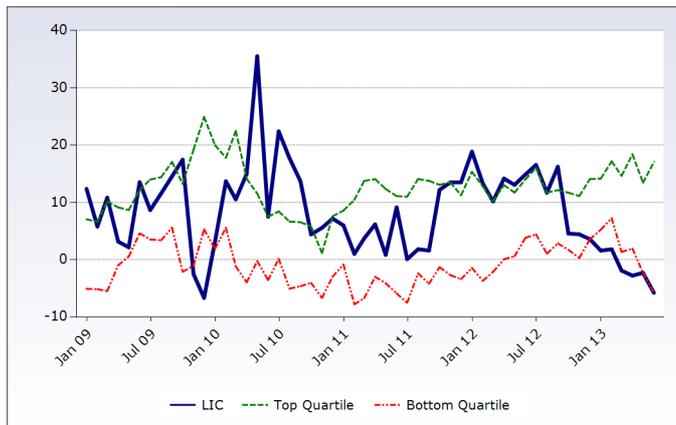
Report data: 31 May 2013, product inception: Jan 2008

Monthly Performance History (%)

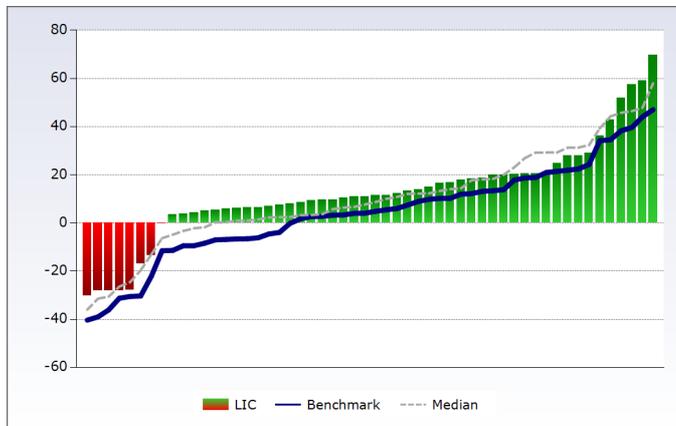
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	LIC YTD	BENCHMARK YTD
2013	4.02	-0.43	0.43	3.65	-3.02								4.56	7.25
2012	3.96	0.00	4.76	0.45	-2.83	0.49	5.31	2.75	0.00	0.00	0.93	3.23	20.44	18.84
2011	4.93	2.82	0.46	0.00	0.00	-3.30	3.41	-4.72	1.98	4.04	-1.94	0.00	7.43	-11.43
2010	3.48	0.00	3.14	4.41	-12.21	4.28	9.74	-3.27	2.42	-1.46	0.49	-0.49	9.30	3.31
2009	-2.78	-3.57	2.22	-2.17	15.56	-1.28	16.88	6.25	12.30	-6.19	1.52	0.50	42.76	39.58

Benchmark: ASX All Ordinaries (Accum)

1 Yr % Rolling Excess Return



1 Yr % Rolling Return Range (Date range as above)



Minimum and Maximum Returns (% p.a.)

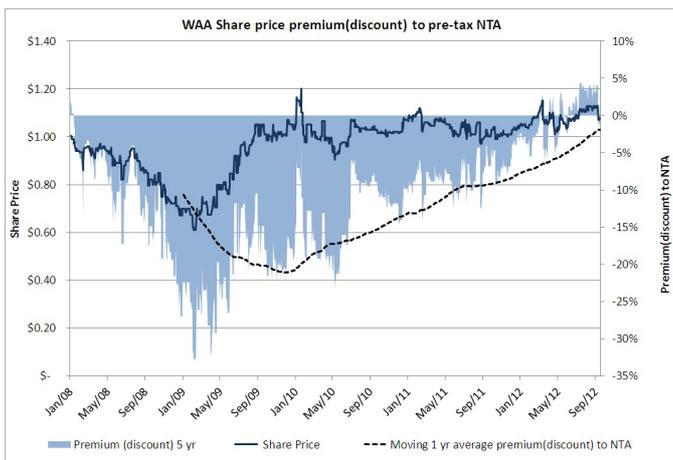


ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	8.03	10.09	14.76	18.46
Benchmark (% p.a.)	-0.55	1.19	7.96	24.23
Ranking within Sector	Incpt.	5 yr	3 yr	1 yr
Fund Ranking	5 / 23	8 / 23	12 / 24	19 / 24
Quartile	1st	2nd	2nd	4th
Standard Deviation	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	16.91	17.23	10.24	7.82
Downside Deviation	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	8.59	8.58	4.26	2.88
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Sharpe Ratio - LIC	0.19	0.32	1.01	1.93
Sortino Ratio - LIC	0.38	0.65	2.44	5.25

WAM Active's share price & dividend performance has performed extremely well on a cumulative basis over all time frames relative to its benchmark the S&P / All Ordinaries Accumulation Index, as can be seen in the table above. These numbers are even more impressive when you consider this does not allow for equalised taxation treatment, the difference in which can be substantial.

This does however illustrate one of the potentially negative issues with the LIC structure, the gap between potentially NTA and share price (see 'WAA Share Price Premium (discount) vs. pre-tax NTA' chart over page).



As indicated previously, the real performance of LICs as opposed to the performance of their investment portfolio can be unduly affected by their underlying NTA relative to their share price. While Zenith cautions that premiums or discounts to NTA are not in itself an indicator of relative value, it can be an indicator of other issues which can represent either buying opportunities or triggers for disposal.

WAM Active has historically traded at both a premium and a discount NTA over its existence. Upon listing to early 2008 it was trading at a discount which remained the case up until early 2012 when it continued to trade largely at a premium.

As at November 2012 it was trading at a small premium to pre-tax NTA versus a sector where the average is typically a "double digit discount".

The key performance indicator is the performance of the WAM Active portfolio, which can be used to assess manager skill, a market benchmark, to assess relative skill and the performance of the WAM share price plus dividends, to assess the performance which "ends up in the investors' hands". What is clearly visible is on all measures WAM Active has outperformed its benchmark even if some of these are unfair measures given the different tax treatments (i.e. tax paid or not) and often it's net equity exposure will be less than 100%.

RELATIVE PERFORMANCE ANALYSIS

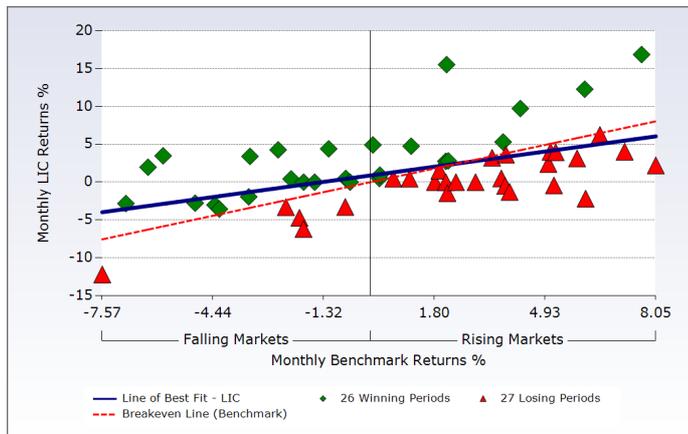
Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	8.59	8.90	6.80	-5.78
% Monthly Excess (All Mkts)	50.77	51.67	52.78	50.00
% Monthly Excess (Up Mkts)	29.73	32.35	36.36	40.00
% Monthly Excess (Down Mkts)	78.57	76.92	78.57	100.00
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	0.50	0.57	0.42	0.53
R-Squared	0.24	0.29	0.23	0.42
Tracking Error (% p.a.)	16.99	16.06	11.20	7.50

Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	0.51	0.55	0.61	-0.77

Monthly Return Scattergram

The following Monthly Return Scattergram Chart provides an insight into the skill of the manager, the risk profile of the manager (both absolute and relative) and the market conditions which favour the manager. The dot points represent the monthly returns of the fund (y-axis) and benchmark (x-axis) since inception or the past five years for funds with long histories. As a guide:

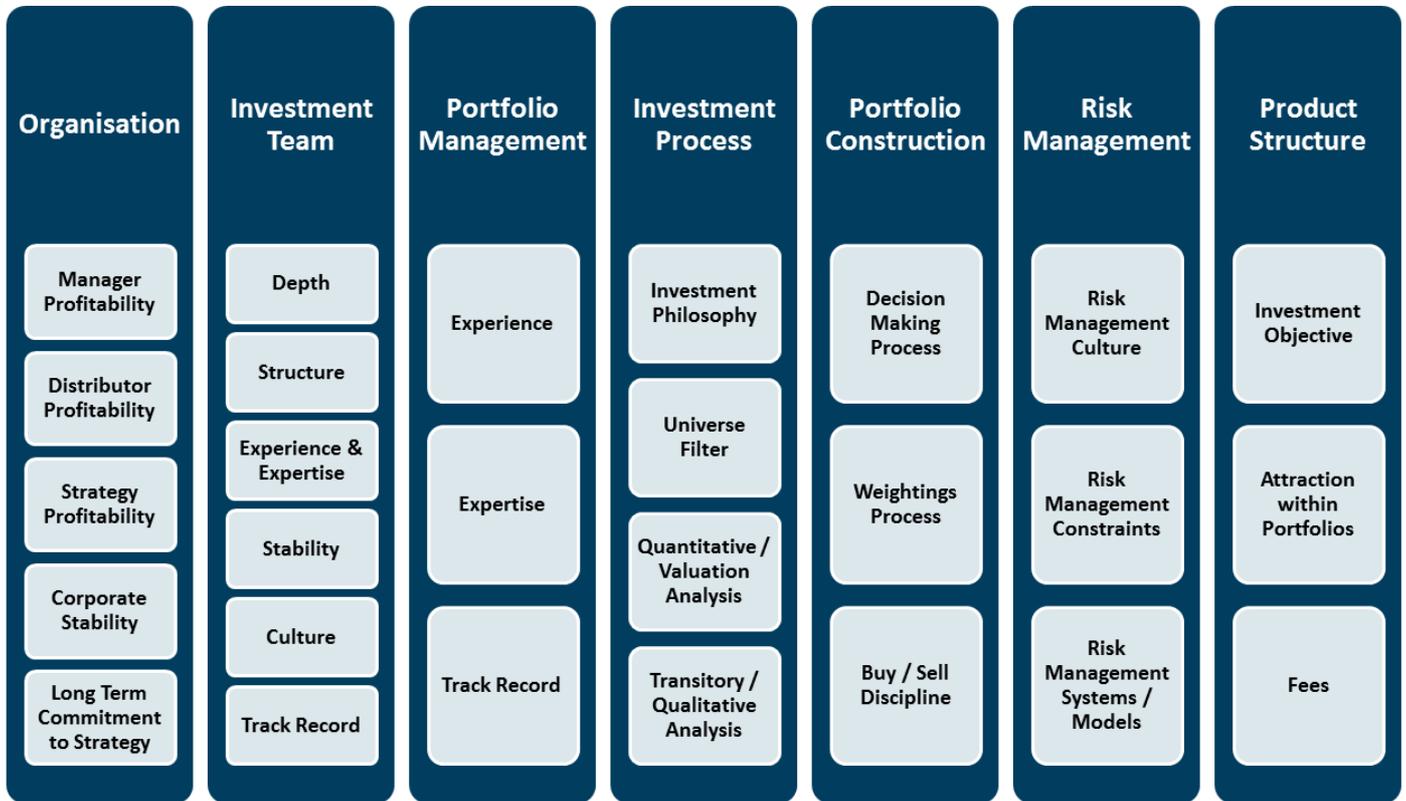
- A green dot point indicates the fund has outperformed in that month. A red dot indicates the fund has underperformed in that month.
- The blue line is a line of best fit of the fund returns and the red line is the breakeven line or benchmark line of best fit. The blue line crossing the y-axis above zero indicates investment outperformance (and vice versa)
- The slope of these lines provides an indication of the beta (market risk) of the investment and benchmark. The greater the slope the greater the risk.
- Often the blue line will cross with the red line at some point and this indicates that investment outperformance is better in certain market conditions (and vice versa).



METHODOLOGIES & DISCLAIMER

Ratings Methodology

Zenith’s ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors change for each sector. This information should be used as a guide only.



Ratings Bands

Based on the scores assigned by Zenith’s analysts for the above mentioned proprietary scoring model, a rating of Highly Recommended, Recommended, Approved or Not Approved is applied to all funds that have undergone full due diligence by the Zenith research team. As shown in the following table the ratings are determined based on the overall score out of 100. Funds may also be screened prior to conducting full due diligence based on qualitative or quantitative concerns as Zenith’s research model aims to focus on the best investments in each sector.

Rating	Scoring Output (%)	Zenith View of Standing within Peer Group (guide only)	Confidence in Meeting Objectives	Zenith Recommended List
Highly Recommended	> 80	Top Decile	Very High	YES
Recommended	> 70-80	Top Quartile	High	YES
Approved	> 55-70	Above Median	Moderate	NO
Redeem	=< 55	Below Median	Low	NO
Other Ratings				
Not Approved	In most cases these funds have failed a preliminary quantitative or qualitative screen which leads us to believe the fund will not achieve the minimum threshold required to receive a Recommended rating or above. In some cases funds may have passed the filter but managers declined the opportunity to be rated.			
Under Review	The fund rating has temporarily been placed under review due to qualitative and/or quantitative issues that need to be addressed by the Zenith Research Team.			

ABSOLUTE RISK RATING

The Absolute risk rankings should be viewed as a guide to potential capital volatility (in both gains and losses) of the relevant investment strategy (Zenith Asset Class / Sub Asset Class classification) of this product. A number of factors have been considered in setting this risk level. For liquid asset classes, we have typically used the underlying historical return volatility of the product's benchmark if the benchmark is a reasonable proxy for returns for this strategy. Where the risk of an investment cannot be reasonably estimated by historical benchmark return analysis, we have made a qualitative assessment of absolute risk and considered factors such as illiquidity risk, transparency, strategy risk, operational risk etc.

VERY HIGH

Funds classified as Very High risk are exposed to sectors with very high historical absolute volatility (16+% p.a. plus standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very High absolute risk level.

HIGH

Funds classified as High risk are exposed to sectors with high historical absolute volatility (8-16% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a High absolute risk level.

MODERATE

Funds classified as Moderate risk are exposed to sectors with moderate historical absolute volatility (4-8% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Moderate absolute risk level.

LOW

Funds classified as Low risk are exposed to sectors with low historical absolute volatility (2-4% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Low absolute risk level.

VERY LOW

Funds classified as Very Low risk are exposed to sectors with very low historical absolute volatility (<2% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very Low absolute risk level.

RELATIVE RISK RATING

The relative risk rankings should be viewed as a guide to the relative risk of a product within its sector. The relative risk levels are listed from high to low and are intended to provide some insight into the potential divergence of the investment's return profile relative to its assigned benchmark.

RATING & REPORT DISCLAIMER

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