

Product Assessment

Report data as at 30 Apr 2016
Rating issued on 06 Jun 2016

WAM Active Limited

VIEWPOINT & RATING

WAM Active Limited (ASX:WAA) was the third in a stable of listed investment companies (LICs) managed by Wilson Asset Management (Wilson AM) and was listed in 2008. WAM provides investors with a well managed exposure to Australian equities. Zenith regards WAM as one of the strongest LICs in the market given its strong heritage, impressive performance track record and experienced investment personnel, however, our conviction in the strategy is moderated due to the size and illiquidity of LIC. **Zenith rates WAA RECOMMENDED.**

Wilson AM was founded in 1997 by Geoff Wilson, who owns 100% of the business. Wilson AM managed more than \$1.2 billion (as at 31 March 2016) across four investment strategies offered through LICs. Zenith believes Wilson AM is one of the prominent players in the LIC segment of the market. In addition, we believe Wilson AM's ongoing commitment to investor communication is a key factor behind the success of their strategies.

Wilson AM's approach is absolute return orientated and seeks to take advantage of relative short-term arbitrages and mispricings in the market including: participating in IPOs, placements, block trades, rights issues, takeovers, LICs 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.

Given Wilson AM's absolute return approach, WAA has the flexibility to invest across the full sector and market capitalisation spectrum. WAA may hold significant levels of cash if opportunities cannot be found, and while there is no restriction on the number of positions held, there will typically be 30 to 90 positions in the portfolio. Consistent with the short-term nature of the strategy, WAA is expected to exhibit portfolio turnover of between 200% p.a. to 400% p.a.

Zenith believes WAA's differentiated approach, which has a successful long-term track record, is a key attraction for investors. In addition, we note that WAA targets a growing, fully franked dividend income stream to shareholders, which may be an appealing feature.

Zenith notes that there is no return hurdle (either market or absolute) for 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 cost before performance fees are paid. Zenith believes that the lack of a performance fee hurdle makes WAA's fee structure highly uncompetitive and is inconsistent with industry best practice.

LIC FACTS

- Benchmark unaware, absolute return style investment strategy
- Trading at a 2.5% premium to net tangible assets, as at 30 April 2016
- 4.8% net dividend yield fully franked, as at 30 April 2016
- Market capitalisation of \$36 million, as at 30 April 2016

APIR Code

ASX:WAA

Buy / Sell Price: 2-Jun-16

A\$1.015 / A\$1.02

Asset / Sub-Asset Class

Australian Shares
Listed Investment Companies - LICs

Investment Style

Growth

Investment Objective

Seeks to provide 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)

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
LIC	6.97	2.85	3.62
Benchmark	6.22	5.44	-3.65

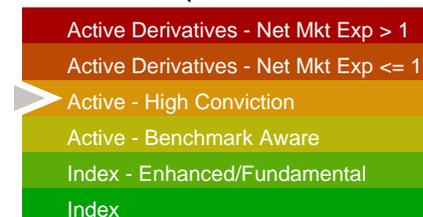
Fees (% p.a., Incl. GST)

Management Cost: 1.10%
Performance Fee: 22% of increase in gross value of portfolio above high water mark

ABSOLUTE RISK (SECTOR)



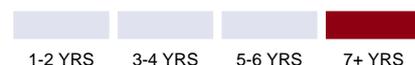
RELATIVE RISK (FUND WITHIN SECTOR)



INCOME DISTRIBUTIONS PER



INVESTMENT TIMEFRAME



APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Listed Investment Companies (LIC)

In assessing the performance of the LIC sector, 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 Net Tangible Assets (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
- Returns generated internally by the investment portfolio

For comparison purposes, the use of the internal portfolio returns versus the benchmark gives the closest measure of the investment manager's skill in generating returns. However, these returns may not be able to be fully crystallised to shareholders given the potential for share price movements.

Caution should be used in the 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 NTA which may represent good buying or selling opportunities. While these instances may boost investment returns, there is no guarantee that the discount or premium will converge to NTA, therefore, gains can not be crystallised.

Australian Equities

The sector incorporates both benchmark aware and benchmark unaware strategies but the funds focus predominantly on large capitalisation stocks. The sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Despite the competitiveness of the sector, the Australian share market has historically provided many opportunities for active management, with the median active manager outperforming a passive index over the longer term.

The Australian share market, as represented by the S&P/ASX 300 Accumulation Index, is highly concentrated and narrow. Technically, a company is assigned the large cap moniker if it falls within the S&P/ASX 50, with those companies falling between the S&P/ASX 50 and S&P/ASX 100 assigned to the mid cap category. All stocks below the top 100 are considered small capitalisation stocks.

As at 30 April 2016, the Financials and Resources sectors

combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for close to 45% of the index, and Resources approximately 15%. The split between Industrials and Resources stocks was approximately 85%/15%. The top 10 stocks represented approximately 45% of the weighting of the index, and the top 20 stocks represented over 60% of the index.

In comparison to the S&P/ASX 300 Index, the S&P/ASX Emerging Companies Accumulation Index has a much lower weighting to the Financials sector and is represented by a larger weighting to the Resources sector, which reflects the importance of resources related industries to the micro-cap sector. A significant proportion of these resource companies are classified as "exploration" companies, and in many cases are not cash flow positive, can be highly volatile and their fortune can be linked to whether (or not) a resource body is discovered.

The Small and Micro Cap sector typically have a market capitalisation of less than \$500 million and the sector is comprised of approximately 1,600 listed companies with a combined total value of circa \$110 billion. Over the longer-term, active management in this sector has historically demonstrated an ability to significantly outperform a passive index given it is an "under researched" segment of the market.

PORTFOLIO APPLICATIONS

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer-term with some income. However, this higher growth is also often associated with higher volatility. Therefore, it is recommended that investors adopt a longer time frame when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market is relatively concentrated, with the Materials and Financials sectors dominating the market; the market also only represents approximately 1% of global equity markets (in terms of market capitalisation). Therefore, to mitigate this concentration risk it is highly recommended that investors diversify their investments across asset classes, both domestically and globally.

WAA may suit investors seeking a liquid (i.e. ASX listed), benchmark unaware, transparent and high yielding exposure to Australian equities. WAA is managed which an absolute return approach which allows for significant levels of cash to be held when investment opportunities are not apparent.

In addition, WAA invests across the market capitalisation, typically having a bias toward small/micro cap stocks as this segment of the market tends to be less efficient and under researched. Given the exposure to small/micro cap stocks, Zenith believes investors should be prepared to invest with an investment time horizon of seven or more years to maximise their potential for optimal results.

WAA may also suit investors seeking a consistent income stream, with the Board committed to paying an increasing stream of fully franked dividends to shareholders. A dividend reinvestment plan also continues to operate at 5% discount.

Despite the relative merit of a strategy, investors should give consideration to the method of access. While the unlisted fund structure may be less convenient for some investors,

accessing a strategy via a LIC will mean that the effectiveness of the strategy may be significantly diminished due to WAA's own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of WAA is driven by market sentiment.

One of the benefits of the LIC structure is that WAA, unlike in an unlisted managed fund, does not have to sell holdings to fund redemptions. Zenith believes this feature is a key competitive advantage for WAA given its bias toward small/micro cap stocks. That is, WAA will not have to sell positions at inopportune times to meet redemption requests.

Although WAA has a strong track record, investors should be aware that its market capitalisation is relatively low at approximately \$37 million (as at 31 March 2016) and as such liquidity and trading volumes are frequently thin.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the "Australian Equities/Listed Investment Company" sector are exposed to the following broad risks:

MARKET & ECONOMIC RISK: As is the case with all long only Australian Share funds, the biggest risk to performance is a sustained downturn across the Australian share market. In addition, changes in economic, social, technological or political conditions, as well as market sentiment could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to the LIC's prescribed investment time frame.

SPECIFIC SECURITY RISK: This is the risk associated with an individual security. The price of shares in a company may be affected by unexpected changes in that company's operations such as changes in management or the loss of a significant customer.

LIQUIDITY RISK: This is the risk that a security or asset cannot be traded quickly enough, due to insufficient trading volumes in the market. When trading volumes are low, sellers can significantly impact the price of a security when attempting to quickly exit a material position.

STYLE BIAS RISK: Australian equity managers will either employ a Growth, Value or Neutral (combination of Value & Growth) styled approach to investing. Each style is conducive to certain market conditions, i.e. Growth should outperform Value in an upward trending market and vice versa in a downward trending market. As with Market Risk, investors should adhere to the LIC's investment time frame to avoid short-term market movements and style impact.

CAPACITY RISK: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager, as high FUM has the potential to hamper the manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

PREMIUM / DISCOUNT TO NET TANGIBLE ASSETS (NTA): The appetite for LICs can be cyclical and sentiment driven and this can result in inefficiencies with LICs trading at either a greater (premium) or lesser (discount) value relative to the value of the underlying assets. There continues to be several

LICs trading at large discounts (value traps) and large premiums (investors over paying for assets) which should be avoided.

FUND RISKS

Zenith has identified the following key risks associated with WAA this is not intended to highlight all possible risks:

MANAGER RISK: Zenith believes the success of WAA will be largely dependent on Wilson AM and the ability of the investment team to produce returns through bottom-up stock selection and sector/market positioning. Unlike many traditional funds, we believe WAA has the ability to deploy two important levers which many others do not have at their disposal: an absolute return focus (i.e. ability to hold significant cash when investment opportunities are not apparent) and not having to be concerned about fund redemptions.

CONFLICT RISK: Many LICs are exposed to conflict risk because there is a direct link typically between the Company and the Manager. In the case of WAA, this is present with Geoff Wilson who is the Chairman and also the sole director and "beneficial" owner of Wilson AM.

KEY PERSON RISK: Zenith believes Geoff Wilson, founder and 100% owner of Wilson AM, is integral to the success of WAA and the firm. Although Chris Stott is the obvious successor and highly regarded by Zenith, Wilson's departure would trigger a reassessment of our rating.

SHORT SELLING RISK: WAA may be engaged in short selling. Short selling involves borrowing and selling securities WAA does not own. The action of stock borrow creates an obligation to redeliver the securities borrowed (or their equivalent) on an agreed date, or if circumstances change on demand from the stock lender. Short sale positions create an unlimited risk for the portfolio, if the stock price of the security rises and WAA is unable to buy the securities back in the market place. The act of buying securities in a rising market can add to the positive price momentum and add to the losses in WAA.

DERIVATIVES RISK: WAA can use various derivatives including options and futures and these investment securities can be volatile, speculative, illiquid and leveraged.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Wilson Asset Management

Wilson Asset Management - International (Wilson AM) is an independently owned boutique funds management organisation established in 1997 by Geoff Wilson. Wilson AM is the manager of WAM Capital Limited (WAM).

Through a separate entity in MAM Pty Ltd (MAM), three LICs are managed - WAM Research Limited (WAX), WAM Active Limited (WAA) and Wilson Leaders Limited (WLE). MAM was initially 80% owned by Wilson and 20% by Matthew Kidman. In June 2011, Wilson acquired Kidman's ownership in MAM, taking full control of the entity.

Zenith would prefer to see a single Investment Manager (i.e. Wilson AM or MAM) in place which would make for a cleaner, simpler structure. We would also prefer to see a wider distribution of equity to key individuals beyond Geoff Wilson.

However, we note that Chris Stott, Kate Thorley (Chief Executive Officer & Company Secretary), Matthew Haupt and Martin Hickson own some non-voting preference shares.

Zenith is of the understanding that Wilson AM and MAM may merge into a single entity, which we believe to be logical.

In aggregate, Wilson AM and MAM managed approximately \$1.2 billion, as at 31 March 2016.

WAM Active Limited

MAM was engaged by WAA as the Manager via an investment management agreement (IMA) dated 6 November 2007. This agreement had 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 provision whereby MAM may be terminated after the initial term (i.e. on three month notice by way of ordinary resolution, which typically requires a majority). After the initial term it became much harder to terminate MAM. In the event that Wilson is terminated, a 12 month fee penalty applies.

As at 30 April 2016, WAA had \$37 million in funds under management.

INVESTMENT PERSONNEL

Name	Title	Tenure
Geoff Wilson	Chairman / Portfolio Manager	19 Yr(s)
Chris Stott	Chief Investment Officer	9 Yr(s)

WAA Limited

WAA has no employees.

Board of Directors

The Board of Directors of WAM Active comprises the following individuals – Geoff Wilson, Matthew Kidman, John Abernethy, Chris Stott and Kate Thorley. Upon its ASX listing the initial Board also comprised Ron Walker who stepped down as a director effective September 2012.

Wilson Asset Management

The investment team of seven is led by Geoff Wilson who established Wilson Asset Management in 1997. Wilson has in excess of 30 years' experience in equity markets and in managing equity portfolios. Zenith holds Wilson in very high regard, highlighting his impressive long-term track record.

Directly reporting to Wilson is Chris Stott, who has over 13 years investment experience. Having joined Wilson AM in December 2006, Stott assumed the role of Chief Investment Officer following Kidman's departure in 2011. Wilson and Stott co-manage WAM, WAX and WAA. Zenith believes Stott is a strong investor, which reduces the key person risk associated with Wilson.

With the launch of the Wilson Leaders Limited (WLE) in 2016, which focuses on S&P/ASX 200 companies, the team expanded progressively, with three additions over the past three years. In addition, there were some responsibility changes within the team with Matthew Haupt assuming the role of portfolio manager for WLE and John Ayoub being a dedicated resource for WLE. Although Haupt and Ayoub are

dedicated resources to WLE, Zenith still expects them to be solid contributors to Wilson AM's other strategies.

Zenith views the progressive expansion of the team gives rise to additional views and skill sets. In addition, we believe that the team is sufficiently resourced to continue to add value.

INVESTMENT PROCESS

WAA's investment objective is to deliver investors a rising stream of fully franked dividends, provide capital growth and preserve capital.

Wilson AM'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. Wilson AM's style is best described as fundamentally driven and absolute return focused. In instances where investment opportunities cannot be found, significant levels of cash will be held.

WAA's investment strategy targets relatively short-term arbitrage and mispricings which include: participating in IPOs, placements, block trades, rights issues, takeovers, LICs 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.

One of the key beliefs within Wilson AM from a top down, structural perspective is that listed investment companies (LICs) provide a distinct advantage to unlisted funds which are open ended. Given LICs manage a captured pool of assets, fund managers are not hindered by inflows and outflows, which can have a significant impact on performance. Although Zenith believes LICs have this advantage over unlisted peers, we note that the effectiveness of the strategy may be altered by WAA's own trading movements. That is, investors may not be able to benefit from the strategy's capital preservation focus as the performance of WAA is driven by market sentiment.

SECURITY SELECTION

WAA 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.

Unlike the majority of its fundamentally driven peers, WAA employs a trading/short-term investment approach. For particular investments whereby the team believes there is a short-term profit apparent, no further detailed analysis may be required. In other instances, the team will conduct further analysis. This may involve employing traditional fundamental analysis techniques like meeting and having discussions with company management.

WAA is highly active and can result in a high level of turnover of trade ideas. Trade ideas stem from a range of sources, such as:

- Institutional and retail sales teams within brokers
- Company directors
- Company senior management
- Funds management community

- Wilson AM shareholder/investor base

Zenith believes it is crucial for the investment team to ensure that they foster and grow their relationships across these networks.

Once an opportunity is identified, the team will assess the risk and return characteristics of the trade. The team will also evaluate whether the trade has sufficient liquidity for successful implementation. A catalyst is needed prior to portfolio inclusion.

Zenith believes WAA's investment process is a point of differentiation relative to fundamentally driven approaches.

PORTFOLIO CONSTRUCTION

Once a catalyst is identified, a position can be initiated. To size positions, considerations are made with regards to the overall risk/return profile of the existing portfolio

While there is no restriction on the number of positions held, there will typically be 30 to 90 positions in the portfolio. Portfolio positions will typically be initiated at a maximum of 6% and spread across multiple industry sectors and non-benchmark constituents.

WAA will hold significant levels of cash if investment opportunities cannot be found. Cash is held in the form of 30 day to 180 day term deposits with the major local banks on various staggered maturities to allow for liquidity. Cash holdings for WAA have averaged approximately 45% since inception. Although Zenith prefers actively managed funds to be fully invested, we note that the ability to hold high cash exposures is consistent with WAA's capital preservation investment objective.

WAA generally does not use leverage nor futures, however, options may be used occasionally. The option strategy that is generally employed within WAA is a collar, which involves buying a put option and selling a call option. Collars are used to limit downside, but also forgo upside potential. Option positions have always been less than 5% of the portfolio and never held without owning the underlying company.

In addition, WAA is able to short sell securities, however, the team have used this ability sparingly, with short sold positions never being more than a 10% allocation since inception. Short sold positions are subject to a 10% stop loss limit. A stop loss limit of 10% is also applied to other trades.

Positions may be sold for one of the following reasons:

- The position has fulfilled expectations
- The catalyst which triggered an investment no longer remains true
- The company is trading at or above the re-assessed fair value
- 10% stop loss limit is breached

Consistent with the short-term nature of the strategy, WAA is expected to exhibit portfolio turnover of between 200% p.a. to 400% p.a.

Overall, Zenith believes the portfolio construction approach allows for the team's best ideas to be represented in the portfolio.

RISK MANAGEMENT

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

Consistent with WAA's flexible investment philosophy and approach, portfolio constraints are not prescriptive. Given the broader portfolio constraints, investors should note that WAA may be significantly overweight certain sectors at different points in the market cycle.

Zenith believes risk management is embedded in the investment process, with WAA seeking to understand the risk and return characteristics of each investment. In addition, we believe the requirement of a catalyst before portfolio inclusion reduces the uncertainty of an investment.

WAA has a particular emphasis on capital preservation, with the flexibility to allocate up to 100% in cash when there are a lack of investment opportunities. Zenith believes the wide cash constraint can potentially add value in overvalued equity markets and/or falling market conditions.

Zenith is satisfied that the Fund's risk management processes are embedded throughout the entire investment process and that the liquidity of holdings are adequately monitored. However, given WAA's broad mandate, Zenith believes investors should be aware that there is a significant reliance on the team's skill and judgement in managing risks.

INVESTMENT FEES

Wilson AM is entitled to a management cost of 1.1% p.a. inclusive of GST (1% p.a. exclusive of GST), which is calculated and paid monthly in arrears.

There is also a performance fee of 22% inclusive of GST (20% exclusive of GST) of any positive returns over the calculation period, net of fees. A high water mark is attached to the performance fee calculation, meaning that any negative relative performance is carried forward and must be recouped prior to performance fees being paid. WAA will also reimburse Wilson AM expenses in relation to management of the portfolio or acquisition, disposal or maintenance of any investment.

While Zenith is pleased to see a high water mark in place, we note that there is no return hurdle (either market or absolute) for 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 cost before performance fees are paid. Zenith believes that the lack of a performance fee hurdle makes WAA's fee structure highly uncompetitive and is inconsistent with industry best practice.

LICs can broadly be categorised into two groups from a

management and fee standpoint on the basis of whether they are internally or externally managed (operating under an individually managed account). Typically, internally managed LICs have lower proportional management costs due to a larger asset pool. Externally managed LICs tend to have management costs more in-line with unlisted managed funds.

WAA's management cost is broadly in line with its externally managed peers.

Fee Type	LIC / Peer Group	Fee %
Management Cost	WAM Active Limited	1.10%
Sector Average - Internally managed ¹		0.30%
Sector Average - Externally managed	Australian Equities LICs	1.11%
Performance Fee	22% of the increase in the gross value of the portfolio.	

¹ Internally Managed LICs data use published MER's as at 31 March 2016 and are ex-GST. All other fees are inclusive of GST. Source: ASX, Zenith.

PERFORMANCE ANALYSIS

Report data: 30 Apr 2016, product inception: Jan 2008

Monthly Performance History (% , net of fees)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	LIC YTD	BM1 YTD	BM2 YTD
2016	-0.47	1.41	-0.46	-1.40									-0.93	0.81	4.10
2015	11.01	-10.71	1.33	-4.39	0.58	-6.64	1.52	-4.00	2.08	3.06	6.60	1.90	0.45	3.78	10.16
2014	3.69	2.77	4.23	-0.15	-4.21	2.40	1.56	11.15	-3.46	-1.22	-9.77	-5.42	-0.06	5.02	-3.80
2013	4.02	-0.43	0.43	3.65	-3.02	-1.33	5.86	4.26	0.61	4.64	0.00	-1.61	17.93	19.66	-0.76
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	6.58

Benchmark 1: ASX All Ordinaries (Accum), Benchmark 2: S&P/ASX Small Ordinaries

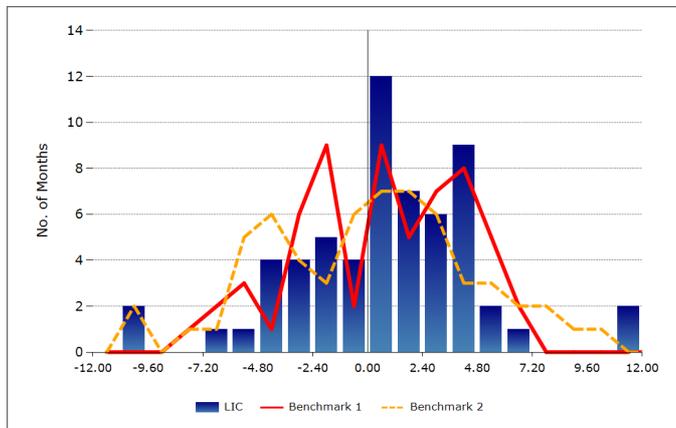
Growth of \$10,000



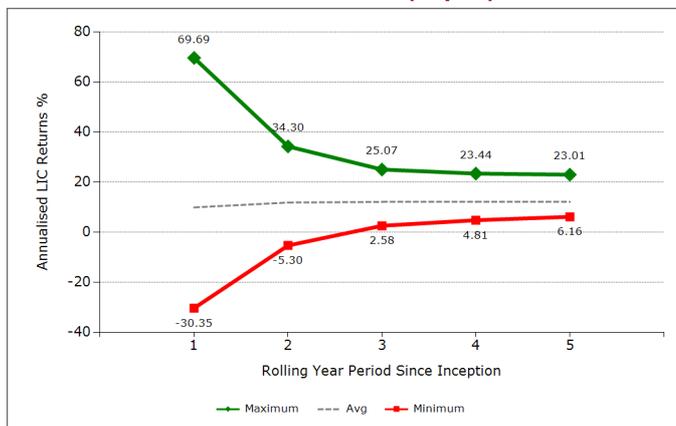
ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	6.61	6.97	2.85	3.62
Benchmark 1 (% p.a.)	2.11	6.22	5.44	-3.65
Benchmark 2 (% p.a.)	-3.18	-0.96	4.16	5.14
Ranking within Sector	Incpt.	5 yr	3 yr	1 yr
Fund Ranking	7 / 25	14 / 27	22 / 28	14 / 39
Quartile	1st	2nd	4th	2nd
Standard Deviation	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	16.74	13.92	16.29	11.25
Benchmark 1 (% p.a.)	15.24	12.40	12.25	14.11
Downside Deviation	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	8.98	8.07	9.52	6.96
Benchmark 1 (% p.a.)	9.71	6.85	6.86	8.79
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Sharpe Ratio - LIC	0.16	0.27	0.02	0.12
Sortino Ratio - LIC	0.29	0.47	0.03	0.20

Monthly Histogram



Minimum and Maximum Returns (% p.a.)



Readers should note that for consistency purposes Zenith benchmarks all Australian Equity – Listed Investment Companies against the S&P / ASX 300 Accumulation index. Unless otherwise indicated, all performance, consistency and Risk/Return data is referenced to the Zenith assigned benchmark and returns are those to shareholders (i.e. share price + dividends).

All commentary below is at 30 April 2016.

WAA's investment objective is to deliver a growing dividend income stream and preserve capital over the short and long-term. Although WAA is benchmark unaware. WAA utilises the Australian All Ordinaries Index as a performance benchmark.

WAA's portfolio has performed strongly over the long-term, outperforming the benchmark over all assessed periods.

LIC Specific Considerations

In assessing the performance of the LIC sector, 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 Net Tangible Assets (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.

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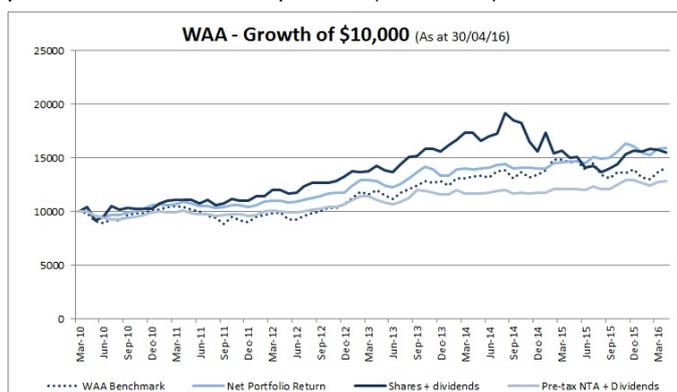
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- Change in pre-tax NTA value and dividends
- Returns generated internally by the investment portfolio

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Caution should be used in the 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 NTA which may represent good buying or selling opportunities. While these instances may boost investment returns, there is no guarantee that the discount or premium will converge to NTA, therefore, gains can not be crystallised.

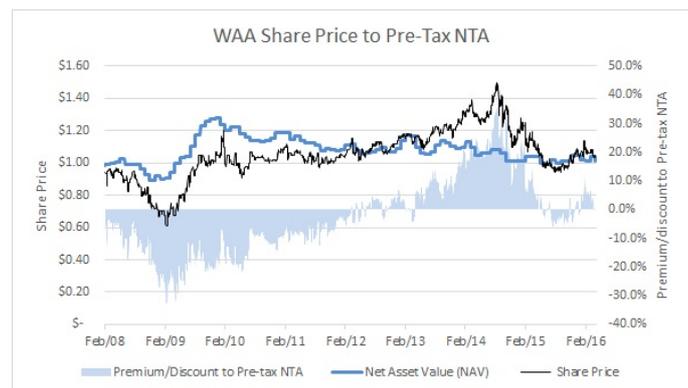
The key performance indicators in the chart below shows the performance of the WAA portfolio (net of fees).



Share Price vs. NTA

WAA was trading at 2.5% premium to NTA as at 30 April 2016.

The following chart shows WAA's premium/discount over the last five years.



WARNING: Zenith ratings applied to LICs do not explicitly take into account share prices vs. NTA and do not represent a buy/sell recommendation based on a LICs valuation. Potential investors should make their own determination of the appropriateness of prevailing premiums or discounts to NTA when acquiring or disposing of a LIC.

Given the current strength of the premium being applied by the market to WAA's shares as at the date this report was issued and despite the rating assigned and our conviction in the investment manager, Zenith cautions potential investors regarding the acquisition of LICs while trading at a premium to NTA.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	4.51	0.74	-2.59	7.28
% Monthly Excess (All Mkts)	51.00	51.67	52.78	50.00
% Monthly Excess (Up Mkts)	31.03	33.33	33.33	16.67
% Monthly Excess (Down Mkts)	78.57	79.17	80.00	83.33
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	0.46	0.37	0.35	0.38
R-Squared	0.17	0.11	0.07	0.23
Tracking Error (% p.a.)	17.35	15.26	17.60	13.18
Correlation	0.41	0.33	0.26	0.48
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	0.26	0.05	-0.15	0.55

All commentary below is at 30 April 2016.

It is important to note that the Relative Performance Analysis shown above combines the LICs share price returns with dividends to give the reader detail on the investor experience.

In order to provide statistics that illuminate the portfolio performance alone as an indicator of the manager's skill, we have also provided the same statistics below on the underlying investment portfolio.

Fee Type	LIC / Peer Group	Fee %
Management Cost	WAM Active Limited	1.10%
Sector Average - Internally managed ¹	Australian Equities LICs	0.30%
Sector Average - Externally managed		1.11%
Performance Fee	22% of the increase in the gross value of the portfolio.	

¹ Internally Managed LICs data use published MER's as at 31 March 2016 and are ex-GST. All other fees are inclusive of GST. Source: ASX, Zenith.

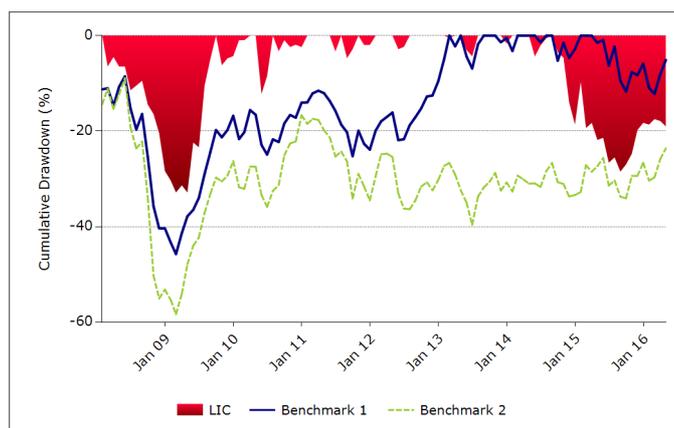
Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. WAA's consistency statistics illustrate strong historical outperformance above benchmark in falling market conditions.

DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

Drawdown Analysis	LIC	BM1	BM2
Max Drawdown (%)	-32.84	-45.75	-58.34
Months in Max Drawdown	15	14	14
Months to Recover	5	50	-

Worst Drawdowns	LIC	Benchmark 1	Benchmark 2
1	-32.84	-45.75	-58.34
2	-28.47	-12.23	
3	-12.21	-6.89	
4	-6.19	-5.26	
5	-4.72	-3.22	



All commentary below is at 30 April 2016.

Consistent with WAA's capital preservation focus, drawdowns have been smaller than that of the benchmark. Zenith expects stronger drawdown protection during periods of significant market corrections.

Despite the relative merit of a strategy, investors should give consideration to the method of access. While the unlisted fund structure may be less convenient for some investors, accessing a strategy via a LIC will mean that the effectiveness of the strategy may be significantly diminished due to WAA's own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of WAA is driven by market sentiment.

REPORT CERTIFICATION

Date of issue: 6 Jun 2016

Role	Analyst	Title
Author	Quan Nguyen	Senior Investment Analyst
Sector Lead	Dugald Higgins	Senior Investment Analyst
Authoriser	Bronwen Moncrieff	Head of Research

RATING HISTORY

As At	Rating
6 Jun 2016	Recommended
20 Mar 2015	Recommended
15 May 2014	Recommended
14 Dec 2012	Recommended

Last 5 years only displayed. Longer histories available on request.

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