

# Product Assessment

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

## WAM Research Limited

### VIEWPOINT & RATING

WAM Research Limited (ASX:WAX) was the second in a stable of listed investment companies (LICs) managed by Wilson Asset Management (Wilson AM) and was listed in 2003. WAX provides investors with a well managed exposure to Australian equities. Zenith regards WAX as one of the more appealing LICs in the market given its strong heritage, impressive performance track record and experienced investment personnel. **Zenith rates WAX HIGHLY 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.

WAX is managed by Geoff Wilson and Chris Stott, who are supported by a team of five. Zenith rates the team highly and is pleased to see team depth increasing over time, reducing the historically high level of key person risk within the organisation.

Wilson AM's approach is absolute return orientated and seeks to identify targets through micro and macro-economic trends and under researched opportunities with a focus on free cash flow and an assessment of management, earnings potential, valuation and industry position. Companies that can grow at a higher rate than the market and trading on a low price to earnings multiple are considered attractive investments. For a company to be considered for portfolio inclusion, the team also requires the identification of a catalyst or an event which will alter the market's perception and trigger a valuation change. Zenith believes the identification of a catalyst is an attractive feature of the process as it ensures the efficient deployment of capital.

Given Wilson AM's absolute return approach, WAX has the flexibility to invest across the full sector and market capitalisation spectrum. WAX will naturally tilt towards small/micro cap stocks and may hold significant levels of cash if opportunities cannot be found. WAX will typically hold between 20 to 60 stocks and exhibit portfolio turnover of between 40% p.a. to 90% p.a.

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

Zenith notes that there is no high water mark on the performance fee calculation, which we believe is a major concern because Wilson AM does not have to recoup prior losses in order to be paid a performance fee. Zenith believes the fee structure is not in accordance with industry best practice. Zenith would prefer to see a high water mark adopted as it ensures greater clarity and certainty of a fair outcome for shareholders.

### LIC FACTS

- Benchmark unaware, absolute return style investment strategy.
- Trading at a 13.8% premium to net tangible assets, as at 30 April 2016
- 6.4% net dividend yield fully franked, as at 30 April 2016
- Market capitalisation of \$230 million, as at 30 April 2016

### APIR Code

ASX:WAX

### Buy / Sell Price: 3-Jun-16

A\$1.34 / A\$1.345

### Asset / Sub-Asset Class

Australian Shares  
Listed Investment Companies - LICs

### Investment Style

Growth

### Investment Objective

Invests in undervalued growth companies, primarily small to medium sized industrial companies listed on the ASX. It seeks to provide investors with a growing stream of fully franked dividends and to achieve a high real rate of return, comprising both income and capital growth.

### Zenith Assigned Benchmark

ASX All Ordinaries (Accum)

### Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
LIC	20.19	16.11	20.22
Benchmark	6.22	5.44	-3.65

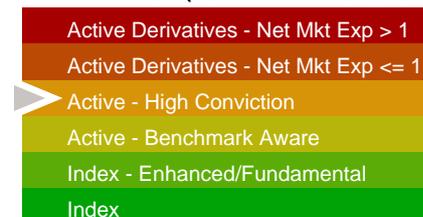
### Fees (% p.a., Incl. GST)

Management Cost: 1.10%  
Performance Fee: 22% above All Ordinaries Accum Index subject to being positive, NO 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.

WAX may suit investors seeking a liquid (i.e. ASX listed), benchmark unaware, transparent and high yielding exposure to Australian equities. WAX 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, WAX 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.

WAX 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 2.5% 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 WAX's own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of WAX is driven by market sentiment.

One of the benefits of the LIC structure is that WAX, 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 WAX given its bias toward small/micro cap stocks. That is, WAX will not have to sell positions at inopportune times to meet redemption requests.

## 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 WAX; this is not intended to highlight all possible risks:

**MANAGER RISK:** Zenith believes the success of WAX 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 WAX 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 WAX, 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 WAX 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:** WAX may engaged in short selling. Short selling involves borrowing and selling securities WAX 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 WAX 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 WAX.

**DERIVATIVES RISK:** WAX 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 Research Limited**

MAM was engaged by WAX as the Manager via an investment management agreement (IMA) dated 3 May 1999. This agreement had an initial five year term with an option to repeatedly extend by a further five years. This option is up for expiry in 13 May 2019.

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, WAX had \$209 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)

**WAM Research Limited**

WAX has no employees.

**Board of Directors**

The Board of Directors of WAX comprises the following individuals: Geoff Wilson, Matthew Kidman, Julian Gosse, John Abernethy, Chris Stott and Kate Thorley.

**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**

WAX'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.

WAX's investment strategy aims to identify micro and macro-economic trends and under researched opportunities. Particular attention is placed on modelling a company's free cash flow and understanding its return on equity. Other important aspects of note are: the ability of management, earnings growth potential, valuation and industry position.

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 WAX's own trading movements. That is, investors may not be able to benefit from the strategy's capital preservation focus as the performance of WAX is driven by market sentiment.

**SECURITY SELECTION**

The team considers relevant micro and macro-economic trends and targeting under researched companies. Once an attractive opportunity has been identified, the team will undertake extensive financial analysis and meet with the company. The team typically conducts over 1000 company visits a year with multiple members of the team involved.

The financial analysis includes entering all historical, publicly available financial information (P&L, Balance Sheet) into its own proprietary financial model. Two year forecast data is also input into the financial model.

Alongside financial analysis, the team will conduct company meetings with the aim of gathering information required to form a view on management, the ability of the company to grow within an industry and the industry position within the broader economy.

The team also conducts industry level analysis. Key factors assessed include market niche, management skills, technology, marketing, earning prospects and product demand.

The output of the team's research and analysis is a one page company summary sheet, which includes:

- A valuation target
- Recommendation
- Upside to valuation (%)
- Cash backing per share (one of the measures of downside potential)
- Broker consensus forecasts (used as an overlay only)

- Various stability, cash flow, working capital and profitability ratios

In addition, a WAM rating score is produced from each company, which is an aggregation of the following four variables - two qualitative and two quantitative.

- *Management*: score out of 10
- *Industry Position*: score out of 10
- *Earnings per share (EPS) Growth*: average % EPS growth next two years (for example, 31% in year 1 and 7% in year 2 will result in a score of 19)
- *EPS/Price Earnings (PE)*: EPS Growth Score/average PE next two years

A WAM Rating Score above 50 sees the stock progress onto a potential investment list. A WAM Rating Score below 50 triggers an "Under Review" rating. There are approximately 50 to 100 stocks with a WAM Rating score.

For a company to be considered for portfolio inclusion, the team also requires the identification of a catalyst or an event which will alter the market's perception and trigger a valuation change. Catalysts typically include: management changes, acquisitions and earnings surprises. Zenith believes the identification of a catalyst is an attractive feature of the process as it ensures the efficient deployment of capital.

Zenith believes the team's research driven approach is sufficiently robust in order to deliver upon investment objectives. In addition, we note that the process has produced highly impressive long-term results.

## 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

The portfolio will rarely hold resource companies due to their often unpredictability and volatility and will comprise predominantly undervalued, small cap industrial companies. Companies that can grow in excess of the market (i.e. 15% p.a to 20% p.a. and trade on a P/E of 10 times of less) are preferred.

WAX is typically well diversified, holding 20 to 60 stocks (normally at the higher end of this range). Portfolio positions will typically be initiated at a maximum of 6% and spread across multiple industry sectors.

WAX 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 WAX have averaged approximately 38% 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 WAX's capital preservation investment objective.

WAX generally does not use leverage nor futures, however, options may be used occasionally. The option strategy that is generally employed within WAX 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.

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

The portfolio turnover of the WAX is typically between 40% p.a. to 90% p.a., which is consistent with the team's two year investment time frame.

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
Expected Number of Securities	Typically 20 - 60
Maximum Cash	No Restriction
Max single stock exposure	No restriction but typically <20%
Leverage	Nil

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

Zenith believes risk management is embedded in the investment process, with WAX 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.

WAX 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 WAX'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.

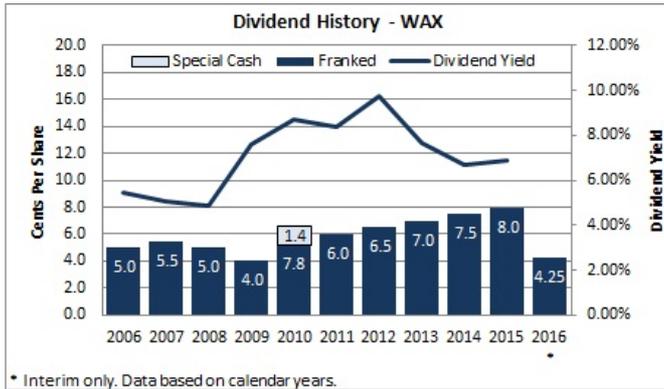
## Dividend Policy

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

WAX has a dividend reinvestment plan (DRP) in place which operates at a 2.5% discount calculated on the Volume Weighted Average Price (VWAP) on the record date and the three days preceding that date.

Dividend growth since inception has been robust and in-line with management's strategy. Dividends represent an

annualised net yield of 6.4% as at 30 April 2016.



Fee Type	LIC / Peer Group	Fee %
Management Cost	WAM Research Limited	1.10%
Sector Average - Internally managed <sup>1</sup>	Australian Equities LICs	0.30%
Sector Average - Externally managed		1.11%
Performance Fee	22% of excess return over the All Ordinaries Index subject to a positive portfolio return or if the Index has declined, the amount of the increase in portfolio value.	

<sup>1</sup> 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.

## 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.

Where the Portfolio has increased in value over a 12 month performance calculation period ending 30 June, Wilson AM will also be entitled to a performance fee of 22% inclusive of GST (20% exclusive of GST) of:

- Where the level of the All Ordinaries Accumulation Index has increased over that period, the amount by which the value of the Portfolio exceeds this increase; or
- Where the level of the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the value of the Portfolio.

No performance fee will be payable to Wilson AM in respect of any performance period where the Portfolio has decreased in value over that period. WAX will also reimburse Wilson AM expenses in relation to management of the portfolio or acquisition, disposal or maintenance of any investment.

The lack of a high water mark on the performance fee calculation is a major concern because in Zenith's opinion this means Wilson AM does not have to recoup prior losses in order to be paid a performance fee. Zenith believes the fee structure is not in accordance with industry best practice. Zenith would prefer to see a high water mark adopted in its performance fee calculation as it ensures greater clarity and certainty of a fair outcome for shareholders.

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.

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

**PERFORMANCE ANALYSIS**

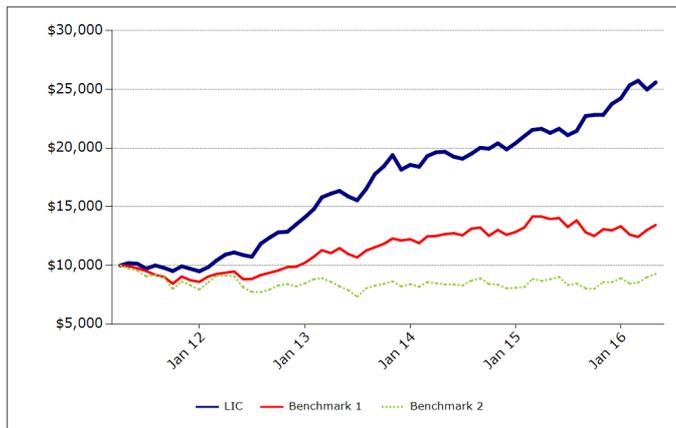
Report data: 30 Apr 2016, product inception: Aug 2003

**Monthly Performance History (% , net of fees)**

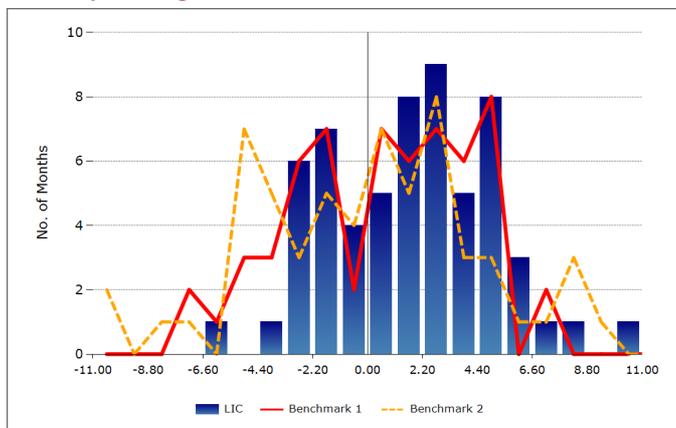
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	LIC YTD	BM1 YTD	BM2 YTD
2016	4.65	1.48	-2.92	2.44									5.62	0.81	4.10
2015	3.02	2.51	0.41	-1.63	1.65	-2.52	1.72	5.93	0.40	0.00	4.12	1.98	18.73	3.78	10.16
2014	-0.89	4.93	1.71	0.21	-2.16	-0.88	2.23	2.62	-0.43	2.35	-2.59	2.65	9.90	5.02	-3.80
2013	4.95	6.81	1.96	1.44	-2.94	-2.02	6.19	7.77	3.60	5.22	-6.38	2.27	31.68	19.66	-0.76
2012	3.76	5.80	4.79	1.63	-2.01	-1.37	10.42	4.40	3.61	0.29	4.82	4.60	48.40	18.84	6.58

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

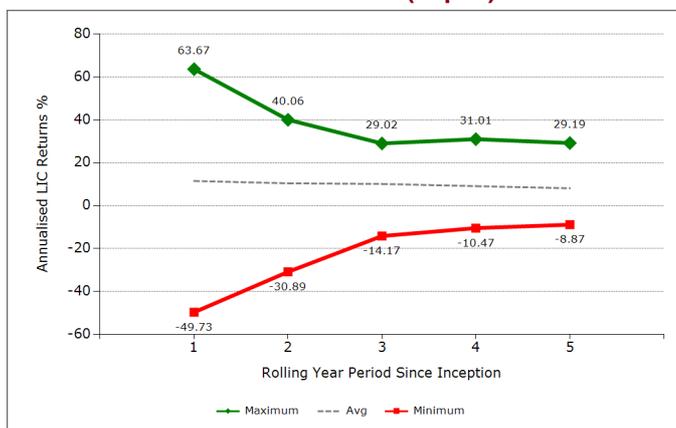
**Growth of \$10,000**



**Monthly Histogram**



**Minimum and Maximum Returns (% p.a.)**



**ABSOLUTE PERFORMANCE ANALYSIS**

Return	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	8.90	20.19	16.11	20.22
Benchmark 1 (% p.a.)	8.83	6.22	5.44	-3.65
Benchmark 2 (% p.a.)	5.85	-0.96	4.16	5.14
Ranking within Sector	Incpt.	5 yr	3 yr	1 yr
Fund Ranking	5 / 16	2 / 27	1 / 28	2 / 39
Quartile	2nd	1st	1st	1st
Standard Deviation	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	14.86	11.32	10.43	8.76
Benchmark 1 (% p.a.)	13.49	12.40	12.25	14.11
Downside Deviation	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	8.78	4.43	4.70	3.52
Benchmark 1 (% p.a.)	8.38	6.85	6.86	8.79
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Sharpe Ratio - LIC	0.29	1.50	1.30	2.05
Sortino Ratio - LIC	0.48	3.84	2.89	5.10

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.

WAX's investment objective is to deliver a growing dividend income stream and preserve capital over the short and long-term. WAX utilises the Australian All Ordinaries Index as a performance benchmark however is fundamentally benchmark unaware in its strategy execution.

WAX'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.

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

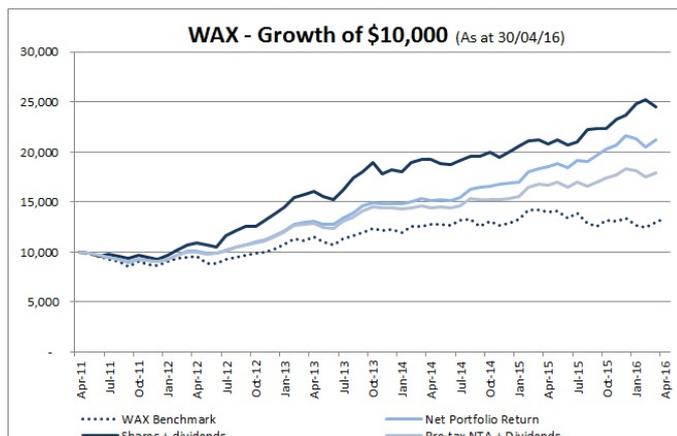
- Share price and dividends
- Change in pre-tax NTA value and dividends
- Returns generated internally by the investment portfolio

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.

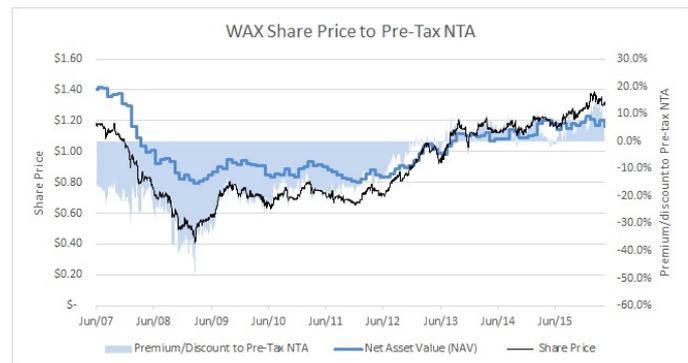
The key performance indicators in the chart below shows the performance of the WAX portfolio (net of fees).



### Share Price vs. NTA

WAX was trading at 13.8% premium to NTA as at 30 April 2016.

The following chart shows WAX'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 premium being applied by the market to WAX'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.)	0.08	13.96	10.67	23.87
% Monthly Excess (All Mkts)	47.71	63.33	63.89	58.33
% Monthly Excess (Up Mkts)	36.73	52.78	47.62	16.67
% Monthly Excess (Down Mkts)	67.27	79.17	86.67	100.00
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	0.62	0.46	0.28	-0.25
R-Squared	0.32	0.25	0.11	0.16
Tracking Error (% p.a.)	13.27	11.88	13.17	19.32
Correlation	0.57	0.50	0.33	-0.40
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	0.01	1.18	0.81	1.24

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.

## WAX Portfolio Performance Statistics

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	3.06	18.47	16.32	11.78
% Monthly Excess (All Mkts)	53.29	70.00	63.89	58.33
% Monthly Excess (Up Mkts)	29.79	45.16	40.00	37.50
% Monthly Excess (Down Mkts)	91.38	96.55	93.75	100.00
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	0.43	0.38	0.38	0.42
R-Squared	0.56	0.51	0.48	0.48
Tracking Error (% p.a.)	12.42	11.17	10.76	10.69
Correlation	0.75	0.72	0.69	0.69
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	0.25	1.65	1.52	1.10

As at 31 March 2016. Zenith benchmark is the S&P/ASX Small Ordinaries Index. NOTE: Unlike the Relative Performance Analysis table, the statistics for the WAX Portfolio are static.

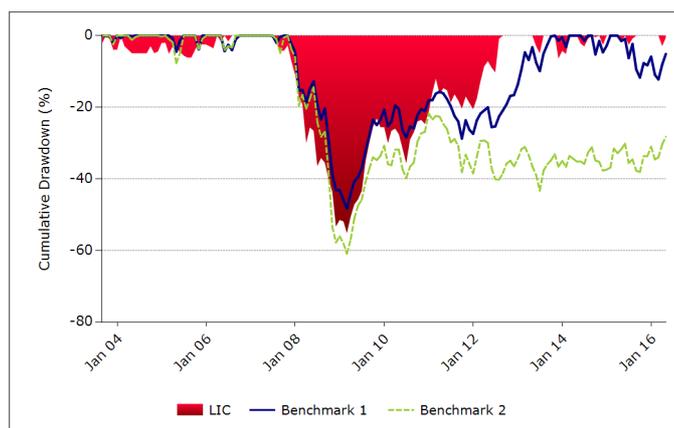
Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. WAX's consistency statistics illustrate strong historical outperformance above benchmark in falling market conditions.

### 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 (%)	-55.13	-48.28	-60.87
Months in Max Drawdown	20	16	16
Months to Recover	42	56	-

Worst Drawdowns	LIC	Benchmark 1	Benchmark 2
1	-55.13	-48.28	-60.87
2	-6.38	-12.23	-7.70
3	-6.12	-5.26	-4.88
4	-6.12	-4.50	-4.02
5	-4.90	-4.34	-3.74



All commentary below is at 30 April 2016.

Consistent with WAX'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 WAX's own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of WAX 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	Highly Recommended
20 Mar 2015	Recommended
15 May 2014	Recommended
30 Jan 2013	Recommended

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

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