

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

WAM Capital Limited (WAM)

Listed Managed Investments

September 2015 Quarterly Review

WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

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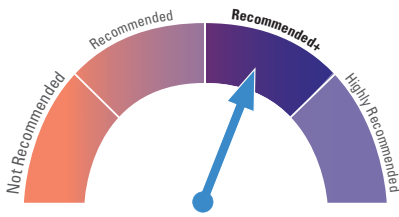
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- 2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 25 November 2015	2.02
Market cap (\$M)	945.4
Shares on issue (M)	468.0
Shares traded (\$M p.a)	235.2
12-month L/H (\$)	1.885/2.10
Listing date	August 1999

Fees

Management Fee (%)	1.00
Performance incentives (%)	20.0*

*Outperformance of the All Ords Acc index or the amount of the increase in the value of the portfolio in the event the All Ords Acc index has fallen.

Pre-tax NTA Performance Analytics (including dividends)

	All Ords Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	11.41	2.25
TE (%)	9.21	8.56

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield

	%
FY13	7.01ff
FY14	6.44ff
FY15	7.03ff

Major Shareholders

	%
GW Holdings Pty Ltd	2.9
Victor John Plummer	2.1

As at 30 September 2015

COMPANY OVERVIEW

WAM was listed in August 1999 and is managed by Wilson Asset Management (International) Pty Ltd. WAM provides an actively managed portfolio that focuses on investing in a diversified portfolio of growth companies, primarily small-to-mid cap securities.

INVESTMENT OBJECTIVE

The investment objectives of the fund are to provide a growing stream of fully franked dividends, provide capital growth and preserve capital.

STYLE AND PROCESS

WAM predominantly invests in a diversified portfolio of growth companies. The manager uses a combination of two approaches to select investments:

- (1) The Research Driven approach, which involves making investment decisions based on extensive research on the security. The manager looks for management strength, earnings growth potential, low earnings multiple, advantageous industry position, generation of free cash flow, appropriate return on equity and a catalyst for share price growth. The manager has over 1,000 meetings with management each year; and
- (2) The Market Driven approach, which involves participating in IPOs, placements and takeover arbitrages aiming to take advantage of short-term arbitrage opportunities and mispricing in the market.

PORTFOLIO CHARACTERISTICS

WAM's portfolio focuses on small-to-mid cap stocks with the majority of investments being in companies outside the ASX 100. Given the company focuses on industrial stocks, the portfolio has very little exposure to the resource sector. The manager defaults to cash if acceptable investments cannot be identified. As such, prospective investors need to be aware that the portfolio may have large cash allocations. The Financials and Consumer Discretionary sectors retain the greatest exposure in the portfolio, with 60% of the invested portfolio allocated to stocks in these two sectors.

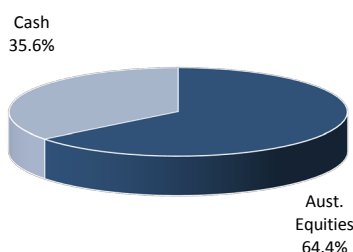
INDEPENDENT INVESTMENT RESEARCH COMMENTS

WAM predominantly invests in small-to-mid cap stocks. The Manager primarily maintains small positions in securities to minimise risk, however, there are no size restrictions on investments so the manager can take high conviction positions in a stock if they so desire. We note that smaller cap stocks tend to entail a greater level of risk; however, the upside potential can be considerable. We note the Manager also takes positions in other LICs trading at a discount. The Manager has the ability to short sell stocks. We note, this has never been more than 5% of the portfolio. WAM's portfolio (pre-tax NTA plus dividends) significantly outperformed the benchmark index over the 12-months to 30 September 2015, increasing 11.3% compared to the benchmark index decline of 0.2%. Over the long-term the portfolio has consistently outperformed the benchmark, with an average rolling annual return of 11.0% over the ten years to 30 September 2015, compared to an 7.7% average rolling annual return for the benchmark index. During the September quarter the company announced a 7.7% increase in the FY15 final dividend of 7 cents per share, taking the full year dividend to 14 cents per share, up from 13 cents per share in FY14. We note that on the back of the 4.3% outperformance of the portfolio over the benchmark index over FY15, the performance fee payable to the Manager is \$11m, representing 11.8% of revenue in FY15. The performance fee combined with the management fee significantly contributed to the fall in EPS for FY15.

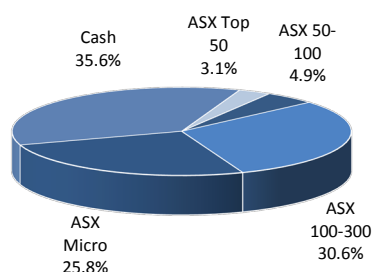
SECTOR BREAKDOWN (EX CASH)

Sector	30 Jun (%)	30 Sep (%)
Energy	0.0	0.0
Materials	0.7	0.8
Industrials	20.0	15.0
Consumer Discretionary	26.8	29.9
Consumer Staples	2.5	3.7
Healthcare	6.5	6.8
Financials (ex Property)	32.6	30.6
Property	0.0	0.0
Information Technology	5.7	7.8
Telecommunication Services	2.8	3.0
Utilities	2.4	2.5
Unlisted Unit Trusts	0.0	0.0

Asset Weighting



Size Weighting



BOARD OF DIRECTORS

Geoffrey Wilson	Chairman (Executive)
Matthew Kidman	Director (Non-Executive)
James Chirside	Director (Non-Executive)
Paul Jensen	Director (Non-Executive)
Lindsay Mann	Director (Non-Executive)
Chris Stott	Director (Non-Executive)
Kate Thorley	Company Secretary

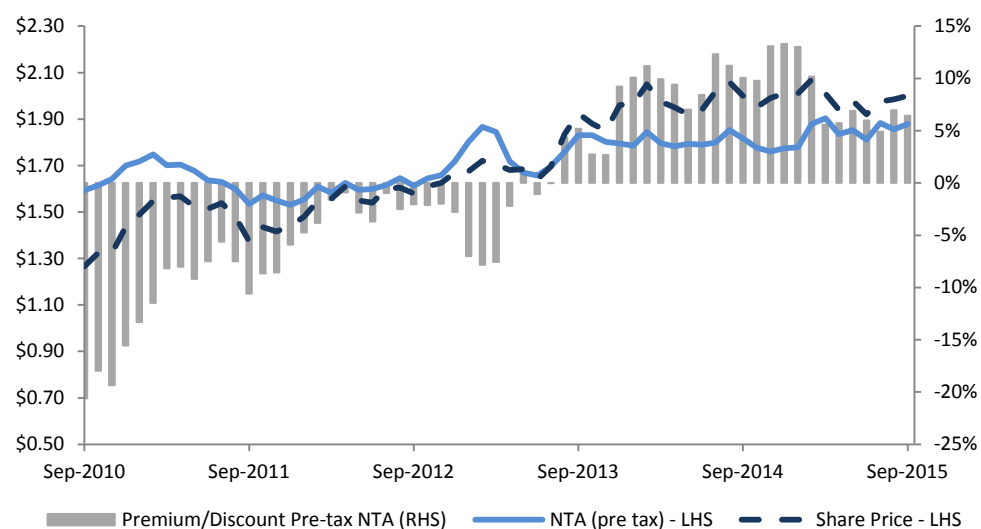
OTHER DATA

- ◆ **Options** – none on issue.
- ◆ **Dividend policy** – The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the company has sufficient franking credits. Dividends are paid on a six-monthly basis.
- ◆ **Capital management policy** – The Board manages the Company's capital by regularly reviewing the most efficient manner by which the company employs its capital. At the core of this management is the belief that shareholder value should be preserved. Shareholder value will be preserved through the management of the level of distributions to shareholders, share and options issues as well as the use of share buy-backs. These capital management initiatives will be used when deemed appropriate by the Board.
- ◆ **LIC tax concessions** – None
- ◆ **DRP available** – Yes

WAM's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
HHV	5.0	na
ECX	3.3	0.0
ASB	3.1	0.1
CYA	3.0	na
SIQ	2.7	0.0
IPH	2.7	0.1
ENE	2.5	0.1
BAP	2.4	0.1
CSV	2.3	0.0
SRX	2.3	0.1
	29.3	0.5

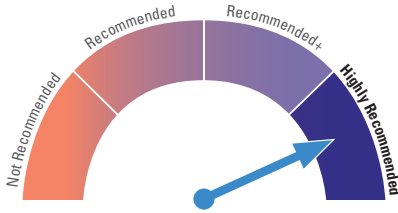


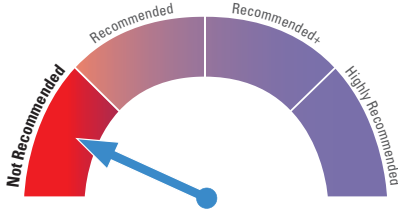
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

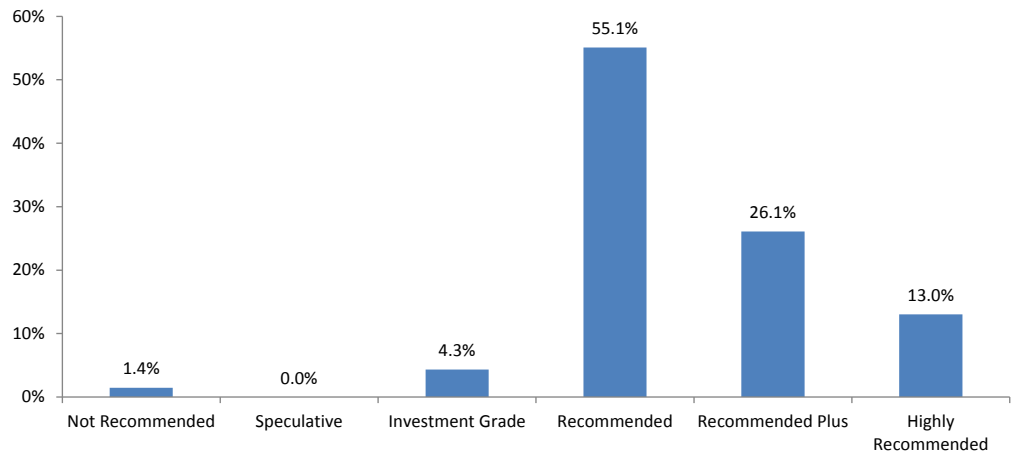
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–82</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>60–78</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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