

AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

WAM Research Limited (WAX)

March 2017

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.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

INDEPENDENCE OF RESEARCH ANALYSTS

Research analysts are not directly supervised by personnel from other areas of the Firm whose interests or functions may conflict with those of the research analysts. The evaluation and appraisal of research analysts for purposes of career advancement, remuneration and promotion is structured so that non-research personnel do not exert inappropriate influence over analysts.

Supervision and reporting lines: Analysts who publish research reports are supervised by, and report to, Research Management. Research analysts do not report to, and are not supervised by, any sales personnel nor do they have dealings with Sales personnel

Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

INDEPENDENCE – ACTIVITIES OF ANALYSTS

IIR restricts research analysts from performing roles that could prejudice, or appear to prejudice, the independence of their research.

Pitches: Research analysts are not permitted to participate in sales pitches for corporate mandates on behalf of a Broker and are not permitted to prepare or review materials for those pitches. Pitch materials by investor clients may not contain the promise of research coverage by IIR.

No promotion of issuers' transactions: Research analysts may not be involved in promotional or marketing activities of an issuer of a relevant investment that would reasonably be construed as representing the issuer. For this reason, analysts are not permitted to attend "road show" presentations by issuers that are corporate clients of the Firm relating to offerings of securities or any other investment banking transaction from that our clients may undertake from time to time. Analysts may, however, observe road shows remotely, without asking questions, by video link or telephone in order to help ensure that they have access to the same information as their investor clients.

Widely-attended conferences: Analysts are permitted to attend and speak at widely-attended conferences at which our firm has been invited to present our views. These widely-attended conferences may include investor presentations by corporate clients of the Firm.

Other permitted activities: Analysts may be consulted by Firm sales personnel on matters such as market and industry trends, conditions and developments and the structuring, pricing and expected market reception of securities offerings or other market operations. Analysts may also carry out preliminary due diligence and vetting of issuers that may be prospective research clients of ours.

INDUCEMENTS AND INAPPROPRIATE INFLUENCES

IIR prohibits research analysts from soliciting or receiving any inducement in respect of their publication of research and restricts certain communications between research analysts and personnel from other business areas within the Firm including management, which might be perceived to result in inappropriate influence on analysts' views.

Remuneration and other benefits: IIR procedures prohibit analysts from accepting any remuneration or other benefit from an issuer or any other party in respect of the publication of research and from offering or accepting any inducement (including the selective disclosure by an issuer of material information not generally available) for the publication of favourable research. These restrictions do not preclude the acceptance of reasonable hospitality in accordance with the Firm's general policies on entertainment, gifts and corporate hospitality.

DISCLAIMER

This publication has been prepared by Independent Investment Research (Aust) Pty Limited trading as Independent Investment Research ("IIR") (ABN 11 152 172 079), an corporate authorised representative of Australian Financial Services Licensee (AFSL no. 410381). IIR has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. Each company specified in the Report (the "Participants") has provided IIR with information about its current activities. While the information contained in this publication has been prepared with all reasonable care from sources that IIR believes are reliable, no responsibility or liability is accepted by IIR for any errors, omissions or misstatements however caused. In the event that updated or additional information is issued by the "Participants", subsequent to this publication, IIR is under no obligation to provide further research unless commissioned to do so. Any opinions, forecasts or recommendations reflects the judgment and assumptions of IIR as at the date of publication and may change without notice. IIR and each Participant in the Report, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither IIR nor the Participants are aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. This document does not constitute an offer of services in jurisdictions where IIR or its affiliates do not have the necessary licenses. IIR and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. IIR and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

IIR, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. IIR discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may affect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any).

However, under no circumstances has IIR been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report. The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.independentresearch.com.au/Public/Disclaimer.aspx>.

THIS IS A COMMISSIONED RESEARCH REPORT.

The research process includes the following protocols to ensure independence is maintained at all times:

- 1) The research process has complete editorial independence from the company and this included in the contract with the company;
- 2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
- 4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
- 5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

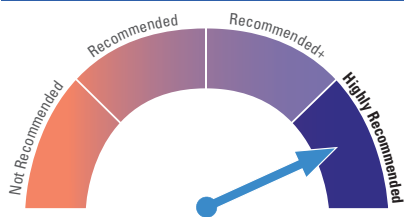
For more information regarding our services please refer to our website www.independentresearch.com.au.

Contents

Fund Overview.....	1
Investment View	1
Recommendation.....	1
SWOT Analysis.....	2
Investment Process	3
Investment Portfolio.....	3
Management & Corporate Governance	5
Performance Analytics	7
Fee structure	8
Appendix – Ratings Process	9



Rating



Investment Profile

Share Price (\$) as at 1 March, 2017	1.59
Issue Capital:	183.2M
Performance Shares	Nil
Fully Diluted (M)	183.2M
Market Capitalisation (M)	\$290.4M
12 month Lo / Hi (\$):	1.27 / 1.66

Board and Management

Wilson Asset Management Investment and Management Team:

Geoff J Wilson. Chairman & Portfolio Manager
 Chris Stott. Chief Investment Officer, Director
 Kate Thorley. CEO, Director
 Matthew Kidman. Non Exec Director
 John Abernethy. Non Exec Director
 Julian Grosse. Non Exec Director

Major Shareholders

There are no major shareholders

Dividend Yield

	%
FY14	4.73ff
FY15	5.05ff
FY16	5.36ff

FUND OVERVIEW

PRODUCT SUMMARY

WAM Research (ASX:WAX) is a listed investment company (LIC) that provides investors with exposure to an actively managed, diversified portfolio of companies listed on the ASX. The Manager focuses its investments on undervalued growth companies predominantly in the mid and small-cap sectors. WAX also provides exposure to value arbitrages and market mispricing opportunities. WAX aims to deliver investors a stream of fully franked dividends as well as provide capital growth. WAX is managed by MAM Pty Limited, a Wilson Asset Management company. The Investment Manager is paid an annual management fee of 1.0% (plus GST) of the gross asset value of the portfolio and is eligible for a performance fee of 20% (plus GST) of the outperformance over the S&P/ASX All Ordinaries Accumulation Index or the amount of the increase in the value of the portfolio in the event the index has fallen.

INVESTMENT VIEW

INVESTOR SUITABILITY

WAX is suitable for retail investors seeking exposure to a well-managed, diversified portfolio of predominantly mid and small-cap industrial shares, with a strong record of outperforming the S&P/ASX All Ordinaries Accumulation Index. It also offers an attractive stream of fully franked dividends. As a listed investment company, WAX may trade at a premium or discount to the company's NTA. If the company trades at a discount, shareholders may not be able to realise their investment at NTA when they seek to exit.

The level of concentration of the portfolio will differ throughout time. Currently the Company holds in excess of 50 securities. The portfolio will be actively managed and therefore will have a high level of turnover. WAX has historically held a large percent of its portfolio in cash and fixed interest securities. Since a change in its investment strategy in July 2010, WAX has held an average monthly cash balance of 35%, with a low of 10% and high of 52%.

RECOMMENDATION

Independent Investment Research (IIR) has upgraded its rating for WAX from Recommended to **Highly Recommended**. We consider WAX to be a "best of breed" LIC for investors looking for a well-managed exposure to a diversified portfolio of Australian mid and small-cap stocks. The following rationale supports our rating upgrade - (1) WAX has a highly experienced investment team with a proven track record and well established investment processes; (2) WAX has a track record of strong portfolio outperformance and, since inception in 2003, has delivered portfolio returns well in excess of the S&P/ASX All Ordinaries Index with lower beta and volatility; (3) WAX has delivered on its objective to provide a growing stream of fully franked dividends, although there was a slight disruption post-GFC with the dividend falling 25% from its pre-GFC high. The dividend has strongly recovered since and is well above the pre-GFC high. The profit reserve at 4.2 times the sum of the last two dividend payments provides a strong buffer to maintain dividends during a market downturn.

Management and performance fees are broadly in line with externally managed LIC peers, but higher than internally managed LICs and other LICs that do not have performance fees. Even so, WAX has outperformed on an after fee basis over the long-term. The absence of a high watermark for the performance fee is a negative. We also note that the Board does not have a majority of independent Directors.

Although we have a Highly Recommended rating on WAX, at 31 January 2017 its shares were trading at a 21% premium to pre-tax NTA. We would prefer to buy the shares at levels closer to pre-tax NTA.

SWOT ANALYSIS

STRENGTHS

- ◆ The investment portfolio is managed by the experienced Wilson Asset Management investment team which currently manages three other LICs using its proven research-driven and market-driven investment processes.
- ◆ WAX, which uses the research-driven investment process over a broad investment universe, has outperformed the market over the 13 years it has been listed.
- ◆ The manager is open and transparent with its shareholder base with regular shareholder communications and investor updates.
- ◆ The LIC structure is a closed-end vehicle and therefore the Company is not a forced seller to meet redemption requests, as can be the case for unlisted funds.

WEAKNESSES

- ◆ WAX does not have a majority of independent Directors. Three of the six directors of the company are employees of the Manager with the Chairman, Geoff Wilson, also Chairman of the Manager. Additionally, a fourth director, Matthew Kidman, is a former employee of the Manager.
- ◆ The Manager is eligible to receive meaningful performance fees if it has outperformed the benchmark. This financial commitment impacts the returns payable to investors. There is no high watermark for the performance fee.

OPPORTUNITIES

- ◆ The LIC provides the opportunity to gain access to a professionally managed portfolio of predominantly small cap ASX-listed securities that has proven its ability to generate value for investors over the long term. It also provides a steady and growing stream of dividends with a focus on capital preservation.
- ◆ The company may trade at a premium to NTA allowing shareholders to exit at a higher value than what the portfolio is worth. All four managed LICs (WAM, WAX, WAA and WLE) are currently trading at a premium to pre-tax NTA at the time of writing this report.

THREATS

- ◆ Poor investment decisions could see the portfolio underperform and lead to the shares trading at a discount to NTA. Since listing the portfolio has consistently outperformed.
- ◆ A rising interest rate environment could see reduced demand for high-yielding stocks and a return to favour for fixed interest products. This could see the price of all LIC shares fall and potentially trade at a discount to NTA. Present indications are that Australian interest rates will not rise for some time.
- ◆ Given the lack of a majority independent Board, it is unlikely the company would seek to remove the Investment Manager if performance deteriorated significantly.

INVESTMENT PROCESS

INVESTMENT OBJECTIVE

The company aims to provide shareholders a steady stream of fully franked dividends and a high real rate of return, comprising both capital and income. The company seeks to provide investors exposure to an actively managed portfolio of ASX listed stocks.

INVESTMENT PROCESS

WAX's investment philosophy is to invest predominantly in industrial companies with an emphasis on companies that are under researched and are considered undervalued by the Manager. As such the company focuses on small-to-mid-cap companies. The Investment Manager utilises its in house refined research-driven investment processes for stock selection.

Research-driven investing

This investment process involves diligence and deep research that focuses on free cash flow, return on equity and the quality of the company. Each prospective investee company is carefully assessed with respect to management, earnings growth potential, valuation and industry position. WAX will only invest in a company when the Investment Manager can identify a potential event which will likely result in the market's re-rating of the security. The manager has over 1,000 meetings with management each year. Research-driven investments tend to be medium to long-term holdings and are generally exited when they reach or exceed the Managers price expectations or there is a change in fundamentals.

Portfolio Construction

The average portfolio weighting of each non cash investment is typically between 0.1% and 3%, however positions may be larger or smaller than this with no limitations on the size of the investment.

Investments will be made on a case by case basis with the portfolio to be benchmark unaware. Catalysts for those investments identified as attractive will determine whether an investment is included in the portfolio.

INVESTMENT PORTFOLIO

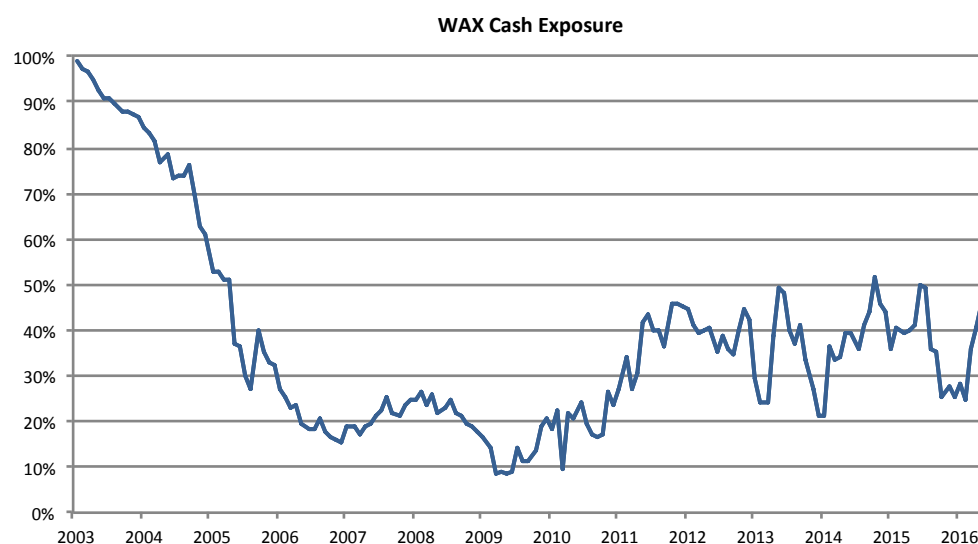
WAX owns a portfolio comprising more than 50 ASX listed securities plus cash. It can invest in both small and large-cap stocks which gives the LIC exposure to market dynamics not available to other fund managers who focus on only large-cap or small-cap stocks. Predominantly, the portfolio is invested in mid and small-cap stocks.

The large, well-diversified portfolio means the weighting in any single security will be relatively small. This means that any single security needs to move by a considerable percent to have any impact on WAM's performance. The largest exposure at 31 December 2016 was a 4.0% holding in Ardent Leisure Group (ASX:AAD), although this position has since been exited. The majority of individual exposures are 2% or less.

The portfolio is actively managed and can only hold long positions. The Investment Manager reverts to cash in the event attractive investments cannot be identified, with the portfolio able to hold up to 100% cash.

WAX typically owns high levels of cash in its portfolio. While this provides both the flexibility to invest opportunistically during periods of market weakness, and protection from significant market weakness (risk mitigation), it also makes sustainable market outperformance in strong markets more difficult. At the end of December 2016 WAX held 46% of its portfolio in cash and fixed interest.

The following chart shows monthly cash levels since inception.



CAPITAL MANAGEMENT

Being a LIC, WAX is a closed-end investment vehicle and does not need to redeem or issue securities to meet investor inflows and outflows. However, as with all listed companies, WAX has the option of issuing new shares if it sees opportunities to grow the portfolio. The Board regularly reviews the most efficient manner by which the company employs its capital. At the core is the belief that shareholder value should 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, to be used when deemed appropriate by the Board.

In recent years the company has raised equity through the exercise of options resulting from a December 2013 1:2 Bonus Option issue, the dividend reinvestment plan (DRP) and placements of DRP shortfall shares. The most recent equity raising was a \$12.5M DRP shortfall placement in October 2016. Since 30 June 2011 the issued capital base has grown from \$119m to an estimated \$197m following the recent DRP shortfall placement. WAX currently has no options on issue.

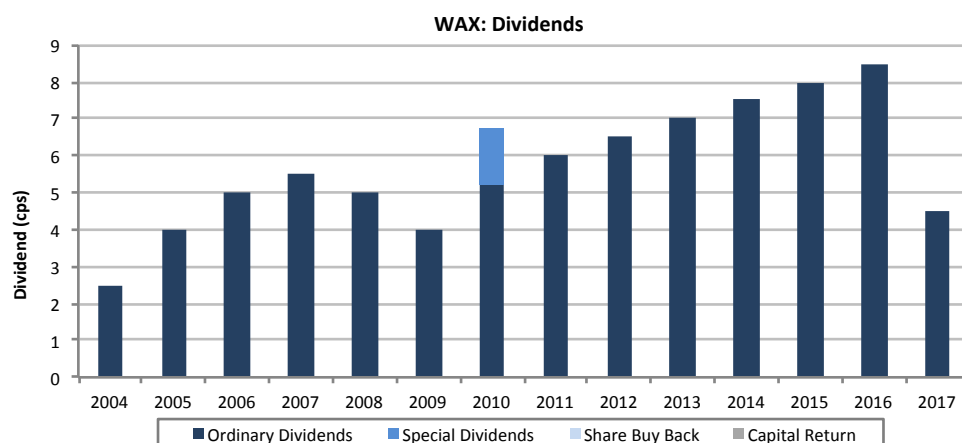
We are on balance comfortable with the active and comprehensive capital management initiatives implemented by the Manager. The recent DRP shortfall placement was undertaken at a premium to NTA which is value accretive for existing shareholders. We would be concerned if equity raisings were undertaken at a discount to NTA, but given the company's history, we think this is unlikely.

DIVIDENDS

WAX's Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the Company has sufficient profit reserves, franking credits, and it is within prudent business practices. The Company's ability to generate franking credits is dependent upon the receipt of franked dividends from investments and the payment of tax. Dividends are paid on a six-monthly basis.

WAX has been successful in achieving this objective and since listing and has delivered a strong flow of fully franked dividends. There was a slight disruption post-GFC with the dividend falling 25% from its pre-GFC high, but the dividend has strongly recovered since and at 8.5 cents per share in FY2016 is well above the pre-GFC high of 5.5 cents per share. The interim 2017 dividend was increased from 4.25 to 4.50 cents per share, fully franked.

At 31 December 2016 the profit reserve held a high level of dividend cover of 4.2 years at the current dividend rate. This provides a strong buffer to maintain dividends during a major market downturn.



MANAGEMENT & CORPORATE GOVERNANCE

WAM RESEARCH LIMITED BOARD

The Board comprises six members, three of whom are non-independent directors by way of association with the Manager. Mr Wilson and Mr Stott are involved in the management of the portfolio and Mr Wilson is also Chairman of Wilson Asset Management. Ms Thorley is the CEO of Wilson Asset Management. A fourth Director, Matthew Kidman, was a portfolio manager at Wilson Asset Management for 13 years. It is six years since Mr Kidman left the Manager, so he is classified as independent.

Given the lack of a majority independent Board, and with the Chairman also Chairman of the Manager, it is unlikely the Board would seek to remove the Investment Manager if performance deteriorated significantly. This has not been an issue in the past with the portfolio outperforming since inception. We also think the performance fee provides a strong incentive for the Manager to quickly turnaround any underperformance. We note that in July 2010 the Manager changed WAX's investment strategy following a period of underperformance. Since the change in strategy, WAX has delivered strong outperformance.

The directors have a wealth of experience in funds management and the investment industry. We are comfortable with the experience and capabilities of the Board and the funds management executives of WAX.

BOARD

Geoff Wilson, Executive Chairman

See below.

Chris Stott, Executive Director

See below.

Kate Thorley, Executive Director

Kate Thorley has more than 10 years' experience in the funds management industry and more than 15 years of financial accounting and corporate governance experience. Kate is also a Director of WAM Leaders (WLE), WAM Research (WAX), WAM Active (WAA) and Future Generation Investment Company (FGX). She is the Company Secretary of WAM Capital and Future Generation Global Investment Company (FGG).

John Abernethy, Independent Director

John Abernethy has over 30 years experience in funds management and corporate advisory. He spent 10 years at NRMA Investments as Head of Equities, managing portfolios. In 1994 he joined Poynton Corporate as an Executive Director before forming Clime Investment Management in 1996. John was appointed Chairman of Clime in 2009.

Matthew Kidman, Independent Director

In 2015, Matthew Kidman became Principal and Portfolio Manager of Centennial Asset Management Pty Limited. Previously, Matthew worked as a Portfolio Manager at Wilson Asset Management for 13 years. Prior to joining Wilson Asset Management, Matthew worked as a finance journalist at the Sydney Morning Herald between the years 1994 and 1998. In 1997 he was made Business Editor of the paper and was charged with the responsibility of company coverage. He holds degrees in Law and Economics and a Graduate Diploma in Applied Finance.

Julian Grosse, Independent Director

Julian Grosse has spent the last 20 years working as a professional director of public companies. Prior to that he was involved in stock broking, merchant broking, and venture capital. Julian is a director of Clime Capital.

INVESTMENT MANAGER

MAM Pty Limited (MAM) is the Investment Manager for WAX. MAM is part of Wilson Asset Management group of companies. The portfolio is managed by the Wilson Asset Management investment team, which currently works across all four existing Wilson Asset Management LICs (WLE, WAM, WAX and WAA).

The experienced management team has demonstrated long term outperformance compared to the market.

Geoff Wilson, Chairman & Portfolio Manager

Geoff Wilson has over 36 years' direct experience in investment markets having held a variety of senior investment roles in Australia, the UK and the US. Geoff founded Wilson Asset Management in 1997. He created Australia's first listed philanthropic wealth creation vehicles, Future Generation Investment Company (FGX) and Future Generation Global Investment Company (FGG). Geoff is Chairman of WAM, WLE, WAX and WAA. He is also a Director of FGG, FGX, Australian Leaders Fund (ALF), Clime Capital (CAM), Global Value Fund (GVF), Century Australia (CYA), Incubator Capital Limited and a number of other organisations.

Chris Stott, Chief Investment Officer & Portfolio Manager

Chris Stott has more than 13 years' experience in the funds management industry. Chris joined Wilson Asset Management in 2006 after being employed with Challenger Financial Services Group in various research roles specialising in Australian equities. Chris is a Director of WLE, WAM, WAX and WAA.

Matthew Haupt, Portfolio Manager

Matthew Haupt joined Wilson Asset Management in 2011 and has focused on the research-driven Investment Process. Matthew has more than 10 years experience in the investment industry as both a portfolio manager and an analyst. He gained extensive large-cap experience in his previous role within Australian Executor Trustees (now part of IOOF).

Martin Hickson, Head of Trading

Martin Hickson has more than seven years' experience in the funds management industry. Martin joined Wilson Asset Management in 2010 after working with Challenger Financial Services Group in various roles within the funds management division.

Tobias Yao Senior, Equity Analyst

Tobias Yao has eight years' experience in the investment industry. Prior to joining Wilson Asset Management Tobias spent five years as an investment analyst at Pengana Capital and he previously worked in Ernst & Young's transaction advisory services division.

John Ayoub, Senior Equity Analyst

John Ayoub joined Wilson Asset Management in 2016. He has 10 years' industry experience, most recently working at Credit Suisse as a director in equity sales and trading. Prior to this, John worked as a research analyst and in corporate finance at Ord Minnett.

Oscar Oberg, Senior Equity Analyst

Oscar Oberg has more than 10 years' experience in financial markets. Before joining Wilson Asset Management, Oscar worked as a sell-side Analyst at CLSA and three years at Grant Thornton working in transaction advisory services.

PERFORMANCE ANALYTICS

WAX's portfolio (pre-tax NTA plus dividends) has outperformed the market (ASX All Ordinaries Accumulation Index) since inception and has generated alpha over the medium-term (see table below). It has achieved this with much lower volatility than the market and a beta well below 1.0. Since a change in investment strategy in July 2010, the portfolio has delivered a return of 15% p.a., outperforming the benchmark by 6% p.a.

Given the strong portfolio performance and active investor communication, the Investment Manager has been successful in building a significant premium into the share price. As long as the manager can maintain the strong performance, the shares are likely to continue to trade at a premium, although a significant rise in interest rates or a reduction in dividend in a sustained market downturn could see the premium come under pressure.

WAX Performance				
Total Returns p.a.	1 Year	3 Years	5 Years	10 Years
Total Portfolio Return	12.1	12.7	17.7	7.1
S&P/All Ords. Accum. Index	11.7	6.8	11.6	4.5
Excess Return	0.4	5.9	6.1	2.6

As at 31 December 2016

We have compared WAX to other LICs that invest in mid and small cap ASX-listed stocks. Many of these LICs have not been in existence for long and therefore do not have long track records. However, as the following table shows, WAX compares very favourably with its peers and has delivered NTA returns at the top end of, or better than, its peers.

Peer Group Portfolio (Pre-tax NTA plus dividends) Returns to 31 December 2016					
Returns		1 Year	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)
Barrack St Investments	BST	-12.1	n.a.	n.a.	n.a.
Contango MicroCap	CTN	7.5	5.3	5.6	3.7
Glennon Small Companies Fund	GC1	0.4	n.a.	n.a.	n.a.
Mirraboooka Investments	MIR	3.4	9.2	14.5	8.2
WAM Active	WAA	10.2	7.2	8.4	n.a.
WAM Capital	WAM	10.2	11.6	13.2	7.1
WAM Research	WAX	12.1	12.7	17.7	7.1
Westoz Investment Company	WIC	23.5	-0.3	3.5	n.a.
S&P/All Ords. Accum. Index	XAOAI	11.7	6.8	11.6	4.5
Beta					
Barrack St Investments	BST	0.92	n.a.	n.a.	n.a.
Contango MicroCap	CTN	0.61	0.76	0.92	1.11
Glennon Small Companies Fund	GC1	0.65	n.a.	n.a.	n.a.
Mirraboooka Investments	MIR	0.79	0.77	0.81	0.87
WAM Active	WAA	0.38	0.34	0.35	n.a.
WAM Capital	WAM	0.37	0.40	0.42	0.58
WAM Research	WAX	0.30	0.35	0.44	0.62
Westoz Investment Company	WIC	0.44	0.59	0.79	n.a.
S&P/All Ords. Accum. Index	XAOAI	1.00	1.00	1.00	1.00
Volatility %					
Barrack St Investments	BST	14.00	n.a.	n.a.	n.a.
Contango MicroCap	CTN	13.90	13.70	16.30	21.
Glennon Small Companies Fund	GC1	13.70	n.a.	n.a.	n.a.
Mirraboooka Investments	MIR	10.90	10.90	10.90	14.30
WAM Active	WAA	7.30	6.30	6.90	n.a.
WAM Capital	WAM	8.30	7.10	7.40	11.70
WAM Research	WAX	10.00	8.00	8.00	11.70
Westoz Investment Company	WIC	10.90	16.90	16.00	n.a.
S&P/All Ords. Accum. Index	XAOAI	12.20	12.30	11.80	14.60

FEE STRUCTURE

Management Fee (p.a)	1% plus GST of gross assets
Performance Fee	20% (plus GST) of: <ul style="list-style-type: none"> Where the level of the S&P / ASX All Ordinaries Index has increased over the period, the amount by which the value of the portfolio exceeds this increase; or Where the level of the S&P / ASX All Ordinaries Index has decreased over the period, the amount of the increase in the value of the portfolio. <p>No performance fee is payable in respect of any performance period where the value of the portfolio has decreased in value over that period.</p>

We have compared WAX's fee structure to other LICs that invest in mid and small-cap ASX-listed stocks.

The below peer group includes LICs that are actively managed although we note that some portfolios are more actively managed than others.

From a base fee perspective, WAX is broadly in line with other externally managed LICs, although is much higher than the internally managed Mirrabooka Investments (MIR).

The performance fee is also in line with most of its internally managed peers, apart from Contango MicroCap (CTN), which does not have a performance fee. MIR, being internally managed also has no performance fee.

We are also point out that there is no high watermark for the performance fee which means that, although the manager does not receive a performance fee for negative returns, there is no mechanism to recover underperformance in a positive return market. This is a negative feature of the fee structure.

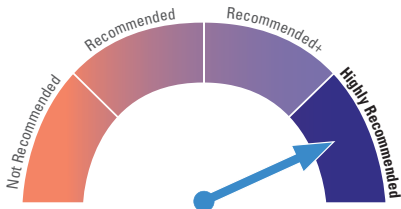


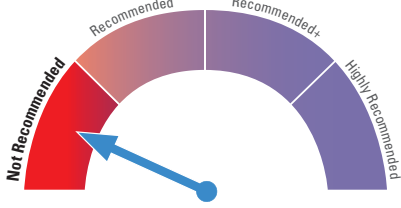
We view the performance fee hurdle benchmark to be appropriate given the investment strategy.

LIC	ASX Code	Management Fee (% pa)	Performance Fee (%)	Performance Fee Hurdle	Premium/ Discount to pre-tax NTA 31/12/16
Barrack St Investments Ltd	BST	1.00	20.0	8% absolute	-14%
Contango Microcap	CTN	1.25	0.0	na	-5%
Glennon Small Cap Fund	GC1	1.00	20.0	S&P / ASX Small Ordinaries Accum Index	-3%
Mirrabooka Investments	MIR	0.65	0.0	na	+26%
WAM Active	WAA	1.00	20.0	Last Year high	+7%
WAM Capital Limited	WAM	1.00	20.0	S&P / ASX All Ordinaries Accum Index	+21%
WAM Research	WAX	1.00	20.0	S&P / ASX All Ordinaries Accum Index	+21%
Westoz Investment Company	WIC	1.00	20.0	10% absolute	-9%
8IP Emerging Companies	8EC	1.25	20.0	RBA Cash rate +2%	-10%

APPENDIX – 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
	83 and above <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>
	79–82 <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>
	60–78 <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>
	<60 <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>

(a) Disclaimer

The information, reports, financial models, forecasts, strategies, audio broadcasts and other media (referred to as "Content" throughout this Legal Notice), provided on this web site has been prepared and issued by Altavista Research Pty Ltd trading as Independent Investment Research "IIR," Independent Investment Research Holdings Pty Ltd (ACN 155 226 074), as authorised to publish research under an Australian Financial Securities Licence (AFSL No 420170) which allows Independent Investment Research to offer financial service advice to retail and wholesale clients. Users of this web site should not act on any Content without first seeking professional advice. Whilst the Content contained on this web site has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by Independent Investment Research, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. Content on this web site is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. We are not aware that any user intends to rely on the Content provided or of the manner in which a user intends to use it. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Access by any user to this website does not create a client relationship between Independent Investment Research and the user. Users seeking to invest must obtain individual financial advice to determine whether recommendations are appropriate to their investment objectives, personal financial situation or particular needs, before acting on any recommendations. Any Content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of Independent Investment Research.

(b) Disclosure of Interest

General

Independent Investment Research, its officers, employees, consultants and its related bodies corporate have not and will not receive, whether directly or indirectly: any commission; fee; benefit; or advantage, whether pecuniary or otherwise, in connection with making any recommendation contained on this web site. Independent Investment Research, discloses that from time to time, it or its officers, employees and its related bodies corporate: may have an interest in the securities, directly or indirectly, which are the subject of these recommendations; may buy or sell securities in the companies mentioned in the Content; may effect transactions which may not be consistent with the recommendations in the Content; may have directorships in the companies mentioned in the Content; and/or perform paid services for the companies that are the subject of such recommendations.

However, under no circumstances, has Independent Investment Research been influenced, either directly or indirectly, in making any recommendations contained on this web site.

Corporate Research

Independent Investment Research has or may have, received a fee either directly by a company itself or by a third party, to provide coverage and/or corporate research (the "Fee"). Where a Fee has been received, Independent Investment Research does not publish:

Buy / Hold / Sell recommendations for the security or managed investment schemes.

(c) Copyright Protection

All Content at this web site is protected by copyright. Apart from any use permitted under the Copyright Act (Cth) 1968, you must not copy, frame, modify, transmit or distribute the material at this web site, without seeking the prior written consent of the copyright owner. Content on this web site is owned by the business Independent Investment Research. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

Copyright 2010 Independent Investment Research. All rights reserved.

(d) Trade Marks

The trade marks and logos displayed on this web site belong to Independent Investment Research or other parties. Such trade marks include registered trade marks and trade marks pending registration. Users are prohibited from using any of these trade marks, without seeking the prior written consent of IIR or such third party, which may own the trade mark content on this web site.

(e) Limitation of Liability

To the fullest extent permitted by the law, Independent Investment Research and any of its officers, employees, agents, consultants or related bodies corporate disclaim any liability, whether based in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential or special damages arising out of or in any way connected with the use of any Content made available on this web site by any person or entity.

(f) No Warranties

Independent Investment Research does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content made available on this web site. All information on this web site is provided to you on an as is basis, without warranty of any kind either express or implied. To the extent that research can be provided by third parties, Independent Investment Research makes no warranty or representation as to the accuracy or completeness of such information displayed on this site, and accepts no liability for errors or omissions arising from such third party information. To the fullest extent permitted by law, under no circumstances will Independent Investment Research be liable for any loss or damage caused by users reliance upon information obtained through this web site. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other content made available through this web site. Furthermore, Independent Investment Research does not warrant or represent that this web site is error free or free from viruses or defects. A user must do all that is necessary (including using virus checking software) to satisfy itself that accessing this website will not adversely affect its system.

For further information, please contact IIR at: client.services@independentresearch.com.au



Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE

Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE

Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE

1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE

200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS

PO Box H297 Australia Square
NSW 1215