
January 2019

Investment Update

W | A | M *Capital*

W | A | M *Leaders*

W | A | M *Global*

W | A | M *Research*

W | A | M *Active*

W | A | M *Microcap*

Dear Fellow Shareholders,

At the end of 2018 our market outlook was extremely bearish due to signs that the US Federal Reserve would raise interest rates in 2019 and quantitative tightening (QT) would continue for another three years. At the same time, leading economic indicators were pointing to a slowing global economy. The combined impact of these factors would be brutal to equity markets. The major turning point in January was the unexpected about-face of the US Federal Reserve, holding interest rates for the foreseeable future and indicating that QT might be over. As a result, global equity markets rallied strongly during the month. Now I see the major risk to equities being slowing economic growth that will present as profit downgrades, not price to earnings contraction from higher interest rates and QT.

As typical in a late economic cycle, equity markets are being driven by global macroeconomic sentiment and events rather than company fundamentals. Global news that dominated financial markets last year – the US-China trade war, Brexit and the slowdown of the Chinese economy carried into January.

China's fourth quarter 2018 GDP figures slipped to 6.4%, the lowest quarterly rate since the global financial crisis. The Chinese economy has been reeling from the US-China trade war and Beijing's crackdown on debt-fuelled corporate spending. We believe the attention given to China's slowdown will be a catalyst for China's central government to stimulate the economy further, as they have through relaxing reserve requirements for banks.

The International Monetary Fund (IMF) downgraded its global growth forecasts for 2019

and 2020 due to persistent weaknesses in economies around the world, citing the surprise turmoil in major European economies such as Germany, Italy, France and the UK, compounded by the continued negative impacts of the weakened Chinese economy.

In Latin America, Venezuela, the country with the largest proven oil reserves in the world, has teetered on the brink of violent civil unrest following its disputed Presidential election. Most major countries have declared Juan Guaidó the legitimate victor, a claim disputed by the incumbent of almost six years, Nicolás Maduro. The United States (US) declared payments for oil imports from Venezuela would be transferred to accounts available only to a democratic government. WTI Crude Oil prices rallied amidst the political uncertainty, increasing 18.5% for the month of January as investors predicted impacts to supply.

The MSCI World Index (AUD) closed up 4.1% for January after falling 4.2% in December.

In Australia the sentiment is mixed. The National Australia Bank (ASX: NAB) December Business Survey released its results on Tuesday 29 January, which showed a sharp fall in business conditions, continuing the downward trend in the second half of 2018. The Australian market fared better in January than where it finished in December, with the S&P/ASX All Ordinaries Accumulation Index, the S&P/ASX 200 Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index rising 4.0%, 3.9% and 5.6% respectively.

In the lead up to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry's report speculation on the recommendations meant the major banks

were down 1.4% in January. The release, at the beginning of February, of Commissioner Hayne's somewhat soft report led to one of the largest single day surges in major bank stocks, with the combined market capitalisation of the four majors increasing close to \$19 billion. It is unlikely that the report will have a material effect on the banks, with mortgage brokers instead targeted with harsher recommendations. ASX-listed mortgage brokers Mortgage Choice (ASX: MOC) and Australian Finance Group (ASX: AFG) were two of the hardest hit on the day, falling 26.4% and 29.1%.

The Reserve Bank of Australia (RBA) kept the interest rate unchanged at 1.5% at its recent February meeting, as it has done since August 2016. The minutes of the meeting indicated that they had no change in their future position which was contrary to market sentiment. Since then RBA Governor Lowe has stated it may reduce interest rates if the economy is weaker than expected based on the central bank's forecast that housing investment will fall by 10% over the next two-and-a-half years.

In other news

On 12 February, shareholders of Century Australia Investments Limited (ASX: CYA) voted in favour of the Scheme of Arrangement with WAM Leaders. We expect the merger to take place in early March following approval by the Federal Court of Australia on 18 February.

As you know, we believe the plan to remove full tax refunds on dividend income is both flawed and unfair and as we approach the election, the issue is heating up. We are very passionate about this cause. I detailed our position, together with clearing up some recent inaccuracies in the press, [here](#). We will continue to campaign on

behalf of many of our shareholders who will be affected.

Next week, we will commence the announcement of our listed investment companies' half-year results. We look forward to providing an update on our listed investment companies on our upcoming investor conference call on 19 March 2019 and meeting with you at our Shareholder Presentations in May 2019.

Good luck investing,



Geoff Wilson AO
Chairman & Chief Investment Officer



W | A | M Capital

Focus: small to mid-cap Australian companies
(ASX: WAM)

Portfolio update

The WAM Capital investment portfolio increased 2.3% in January.

Research-driven portion of the investment portfolio:

A key contributor to the portfolio performance included Credit Corp (ASX: CCP). CCP is Australia's largest debt buyer and collector, operating globally, which assists customers to repay outstanding debt balances. During January, CCP announced a 13% increase in net profit after tax for the first half of FY2019, beating analysts' expectations. We believe CCP's US division and consumer lending business can continue to generate double-digit earnings growth over the next few years. CCP was up 17.2% for the month of January.

Market-driven portion of the investment portfolio:

A key contributor to the portfolio performance included IDP Education (ASX: IEL). IEL specialises in international education services, such as student placements and English testing. IEL is a co-owner of IELTS, the most popular global English language test. Over the past few years IEL has invested in a new digital platform to introduce computer-delivered IELTS tests. We believe this global platform can drive volumes in new tests and improve IEL's margins over the next few years. IEL was up 15.0% for the month.



Oscar Oberg
LLB BBus CFA
Lead Portfolio Manager



Martin Hickson
BBus BComp M App Fin
Lead Portfolio Manager

Net tangible asset (NTA) figures

NTA before tax	178.44c
NTA after tax and before tax on unrealised gains	180.00c*
NTA after tax	182.67c*

*Includes 0.55 cents per share of tax assets resulting from the acquisition of unlisted investment companies.

*Based on the 31 January 2019 share price of \$2.08 per share and the FY18 fully franked full year dividend of 15.5 cents per share.

Pre-tax net tangible assets

\$1.78

Gross assets

\$1,276.2m

FY18 fully franked dividend yield[^]

7.5%

Performance (p.a. since August 1999)

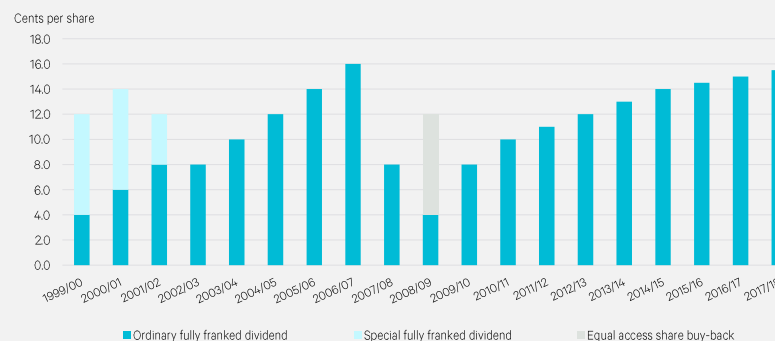
16.5%

Performance at 31 January 2019

	1 mth	Fin YTD	1 yr	3 yrs %pa	5 yrs %pa	10 yrs %pa	Since inception %p.a. (Aug-99)
WAM Investment Portfolio	2.3%	-7.1%	-4.4%	8.5%	11.7%	16.4%	16.5%
S&P/ASX All Ordinaries Accumulation Index	4.0%	-3.6%	0.7%	10.0%	7.1%	10.1%	8.0%
Outperformance	-1.7%	-3.5%	-5.1%	-1.5%	+4.6%	+6.3%	+8.5%

Investment performance and Index returns are before expenses, fees and taxes.

Fully franked dividends since inception



Top 20 holdings in alphabetical order

Austal Limited	ASB
CIMIC Group Limited	CIM
Cleanaway Waste Management Limited	CWY
Credit Corp Group Limited	CCP
CSL Limited	CSL
IPH Limited	IPH
JB Hi-Fi Limited	JBH
Macquarie Group Limited	MQG
Mayne Pharma Group Limited	MYX
Pengana International Equities Limited	PIA
PSC Insurance Group Limited	PSI
Seven Group Holdings Limited	SVW
Smartgroup Corporation Limited	SIQ
Steadfast Group Limited	SDF
Tabcorp Holdings Limited	TAH
Templeton Global Growth Fund Limited	TGG
The a2 Milk Company Limited	A2M
Vocus Group Limited	VOC
Woolworths Group Limited	WOW
WorleyParsons Limited	WOR

Investment type	December 2018		January 2019	
	\$m	%	\$m	%
Listed equities	703.9	56.4	736.6	57.8
Short portfolio	(3.7)	(0.3)	(2.1)	(0.2)
Fixed interest & cash	548.3	43.9	541.7	42.4
Gross assets	\$1,248.5m	100.0	\$1,276.2m	100.0
Market capitalisation	\$1,541.4m		\$1,484.3m	
Total shares on issue	713,608,947		713,608,947	