

WAM Capital Limited (WAM)

Listed Managed Investments

March 2018 Quarterly Review

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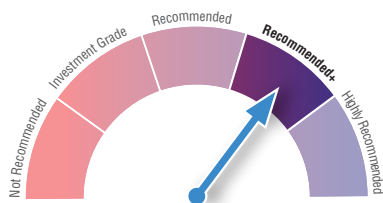
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

| | |
|------------------------------|-------------|
| Price (\$) as at 5 June 2018 | 2.36 |
| Market cap (\$M) | 1,577.3 |
| Shares on issue (M) | 668.4 |
| Options on issue (M) | 0.0 |
| Shares traded (\$M p.a) | 466.9 |
| 12-month L/H (\$) | 2.20/2.56 |
| 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.

Premium/Discount to Pre-tax NTA

| | |
|---------------------|-------|
| As at 31 March 2018 | 24.6% |
| 3 year average | 15.8% |

Dividend Yield

| | % |
|------|--------|
| FY15 | 7.03ff |
| FY16 | 6.39ff |
| FY17 | 6.17ff |

Largest Shareholders

| | % |
|----------------------------------|-----|
| EHJ Investments Pty Ltd | 1.0 |
| HSBC Custody Nomiees (Australia) | 0.8 |

As at 31 March 2018

COMPANY OVERVIEW

WAM Capital Limited (ASX: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 industrial 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 1,500 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 87% of the invested portfolio in companies outside the ASX 100. The portfolio has limited exposure to the resource and energy sectors. 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 portfolio is actively managed and as such will likely have significant turnover. The Manager reduced its market exposure over the March quarter, increasing the cash holding to 32%. The Manager reduced its exposure to mid cap stocks from 12% at December-end to 4.8% at March-end. The portfolio is well-diversified and with the largest individual stock weighting at 2.8%, no single stock is likely to have a material impact on portfolio performance. WAM invests in other LICs trading at a discount to NTA as part of its market driven strategy, with a view to profiting from eradication of the discount over time.

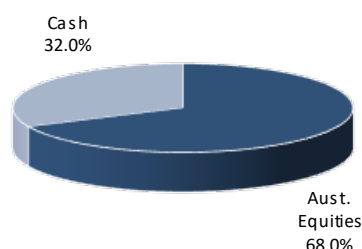
INDEPENDENT INVESTMENT RESEARCH COMMENTS

WAM invests primarily in small-to-mid cap industrial securities. 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 it desires. We note that smaller cap stocks tend to entail a greater level of risk; however, the upside potential can be considerable. The Manager also takes positions in other LICs trading at a discount and has the ability to short sell stocks. Short selling has never exceeded 5% of the portfolio. The portfolio (pre-tax NTA plus dividends) has significantly outperformed the benchmark index (ASX All Ordinaries Accumulation Index) over the 12 months to 31 March 2018. This is to be expected given the high levels of exposure to small and micro cap stocks, which have significantly outperformed the large and mid cap stocks over the period. Over the long-term the portfolio has consistently outperformed the benchmark index, with an average rolling annual return of 11.3% over the ten years to 31 March 2018, compared to an 8.5% average rolling annual return for the benchmark index. This has been achieved with lower volatility. The company continues to trade at a significant premium to pre-tax NTA. We view the shares to be overvalued at these levels. The company announced that Matthew Kidman has resigned from the board. Dr. Philippa Ryan has been appointed to replace Mr. Kidman. Dr. Ryan is an experienced legal academic with experience in commercial law, corporate governance, finance and technology.

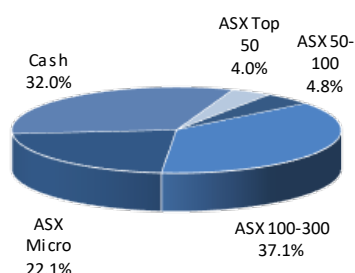
SECTOR BREAKDOWN (EX CASH)

| Sector | 31 Dec (%) | 31 Mar (%) |
|----------------------------|------------|------------|
| Energy | 2.2 | 1.7 |
| Materials | 5.7 | 7.8 |
| Industrials | 18.4 | 14.8 |
| Consumer Discretionary | 14.7 | 21.3 |
| Consumer Staples | 2.1 | 5.0 |
| Healthcare | 6.0 | 5.6 |
| Financials (ex Property) | 37.2 | 36.5 |
| Property | 0.0 | 0.0 |
| Information Technology | 9.2 | 4.7 |
| Telecommunication Services | 4.4 | 2.6 |
| Utilities | 0.0 | 0.0 |
| Unlisted Unit Trusts | 0.0 | 0.0 |

Asset Weighting



Size Weighting



Board of Directors

| | |
|-------------------|--------------------------|
| Geoff Wilson | Chairman (Executive) |
| Dr. Philippa Ryan | Director (Non-Executive) |
| James Chirnside | Director (Non-Executive) |
| Chris Stott | Director (Executive) |
| Lindsay Mann | Director (Non-Executive) |
| Kate Thorley | Director (Executive) |

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

PERFORMANCE ANALYTICS

| Performance | Mar Quarter | 1 year | 3 year p.a | 5 year p.a |
|--|-------------|--------|------------|------------|
| Pre-tax NTA + Dividends (%) | -2.2 | 9.2 | 9.5 | 9.0 |
| Peer Group Median (pre-tax NTA plus dividends), %* | -2.0 | 6.5 | 7.3 | 6.6 |
| ASX All Ords Acc Index (%) | -3.7 | 3.6 | 4.4 | 7.9 |
| Out/Under performance of index (%) | 1.5 | 5.5 | 5.1 | 1.2 |
| Share Price + Dividends (%) | 4.2 | 4.2 | 14.8 | 15.3 |
| Tracking Error (%) | 2.6 | 3.6 | 8.5 | 8.5 |

*Australian Mid/Small Cap Shares as classified in the IIR monthly LIC report.

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

OTHER DATA

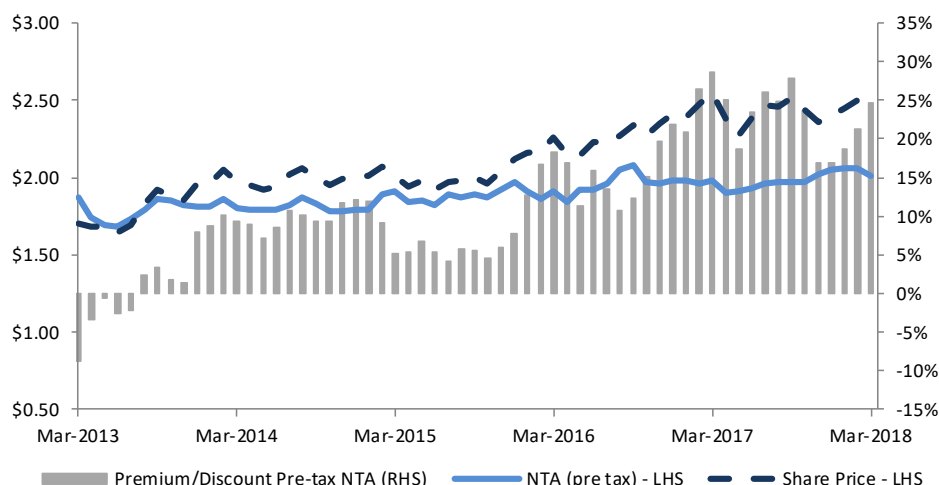
- ◆ **Dividend policy** – The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the Company has sufficient profit reserves, franking credits, and it is within prudent business practices. The Company's ability to generate franking credits is dependent upon the receipt of franked dividends from investments and the payment of tax. Dividends are paid on a six-monthly basis.
- ◆ **Capital management policy** – 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.
- ◆ **LIC tax concessions** – None.
- ◆ **DRP available** – Yes, for both interim and final dividend.

WAM's Portfolio (Top 10) Weighting

| Code | Portfolio (%) | All Ords (%) |
|------|---------------|--------------|
| MTR | 2.8 | 0.1 |
| NEC | 2.8 | 0.1 |
| PIA | 2.3 | na |
| ASL | 2.0 | 0.1 |
| SVW | 1.9 | 0.3 |
| TGG | 1.8 | na |
| SCO | 1.6 | 0.0 |
| IMD | 1.6 | 0.0 |
| EHL | 1.5 | 0.0 |
| AOG | 1.5 | 0.1 |
| | 19.8 | 0.7 |

Source all figures: WAM/Independent Investment Research/IRESS.
All data as at 31 March 2018 unless otherwise specified.

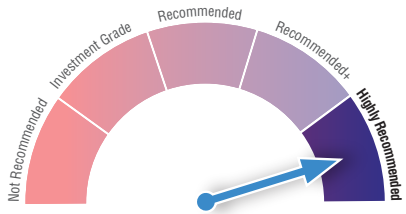
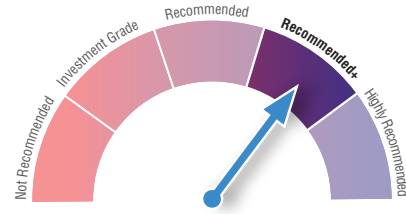
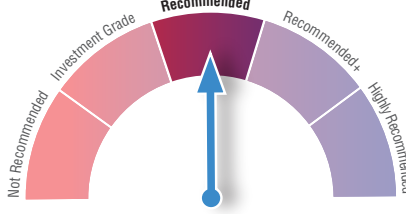
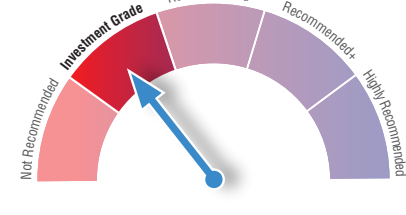
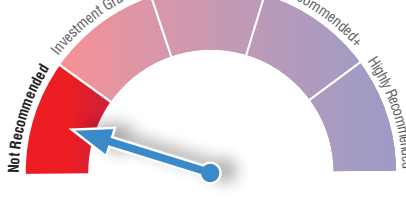
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

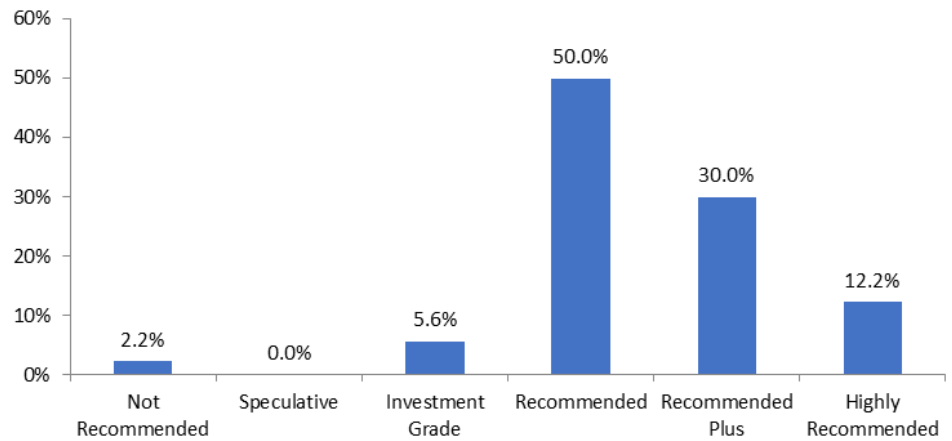
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; 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>79–83</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>70–79</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>Investment Grade</p>  | <p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate 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 that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</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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