

WAM Research Limited (WAX)

Listed Managed Investments

March 2018 Quarterly Review

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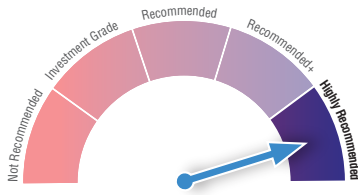
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Asset

Listed companies and other

Investment Sectors

Diversified

Investment Profile

Price (\$) as at 5 June 2018	1.54
Market cap (\$M)	290.1
Shares on issue (M)	188.4
Options on issue (M)	0.0
Shares traded (\$M p.a.)	65.4
12-month L/H (\$)	1.355/1.635
Listing date	August 2003
Fees	
Management Fee (%)	1.0
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	24.3%
3 year average	16.7%

Dividend Yield

	%
FY15	6.68ff
FY16	6.11ff
FY17	5.81ff

Largest Shareholders

	%
GW Holdings Pty Ltd	2.6
Victor John Plummer	1.9

As at 31 March 2018

COMPANY OVERVIEW

WAM Research Limited (ASX:WAX) is a listed investment company that invests in growth companies which are generally small-to-medium sized industrial companies. The company was listed in 2003 and the portfolio is managed by MAM Pty Limited, a member of the Wilson Asset Management Group of companies.

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.

STYLE AND 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 manager uses a research-driven approach to identify investment opportunities, 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.

PORTFOLIO CHARACTERISTICS

WAX aims to maintain a portfolio of between 30 and 60 securities. The manager focuses on small to-mid cap stocks with the majority of investments outside the top 100. Given the company focuses on industrial stocks, the portfolio has very little, if any, exposure to the resource and energy sectors, however, it does invest in companies that provide services to the resources sector. The Manager significantly increased its exposure to the Consumer Discretionary sector during the March quarter, with this sector now the largest sector exposure in the portfolio. The Manager heavily reduced its exposure to the Information Technology and Telecommunication sectors. The portfolio is well diversified with the largest individual stock holding at 5.4% at 31 March 2018. The manager will hold cash if attractive investment opportunities cannot be identified or to preserve capital in times of heightened volatility. Cash remained relatively high at 28.2% of the portfolio at March-end.

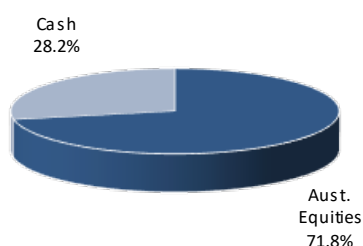
INDEPENDENT INVESTMENT RESEARCH COMMENTS

We consider WAX to be suitable for investors looking for a well-managed exposure to a diversified portfolio of Australian small and mid cap stocks. It has a highly experienced investment team with a proven track record and well-established investment processes. The portfolio (pre-tax NTA plus dividends) has outperformed the benchmark index (ASX All Ordinaries Accumulation Index) over the 12 months to 31 March 2018. This reflects the strong performance of small cap stocks compared to large cap stocks over the period. WAX has outperformed over the longer-term with an average rolling annual return of 11.0% to 31 March 2018, compared to the benchmark index average annual rolling return of 8.5%. The Manager has achieved this with lower volatility. From an investor return perspective, the total share price return has outperformed the portfolio return over the three-and-five year periods to March-end. This is reflected in the significant premium that the company is trading at. We view the company to be overvalued at these levels.

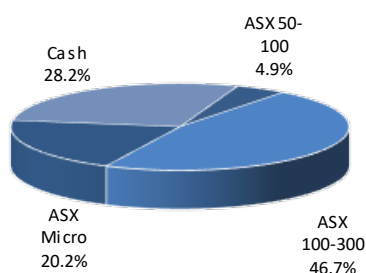
SECTOR BREAKDOWN (EX CASH)

Sector	31 Dec (%)	31 Mar (%)
Energy	2.7	2.7
Materials	8.5	11.7
Industrials	15.9	12.5
Consumer Discretionary	13.0	28.0
Consumer Staples	0.0	1.7
Healthcare	2.1	7.6
Financials (ex Property)	30.5	26.7
Property	0.0	0.0
Information Technology	20.1	7.6
Telecommunication Services	7.1	1.5
Utilities	0.0	0.0

Asset Weighting



Size Weighting



Board of Directors

Geoff Wilson	Chairman (Executive)
Matthew Kidman	Director (Non-Executive)
John Abernethy	Director (Non-Executive)
Julian Gosse	Director (Non-Executive)
Chris Stott	Director (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	7.1	9.7	11.3
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	3.4	5.3	3.4
Share Price + Dividends (%)	2.0	3.9	15.0	15.4
Tracking Error (%)	6.7	4.3	8.7	8.4

*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

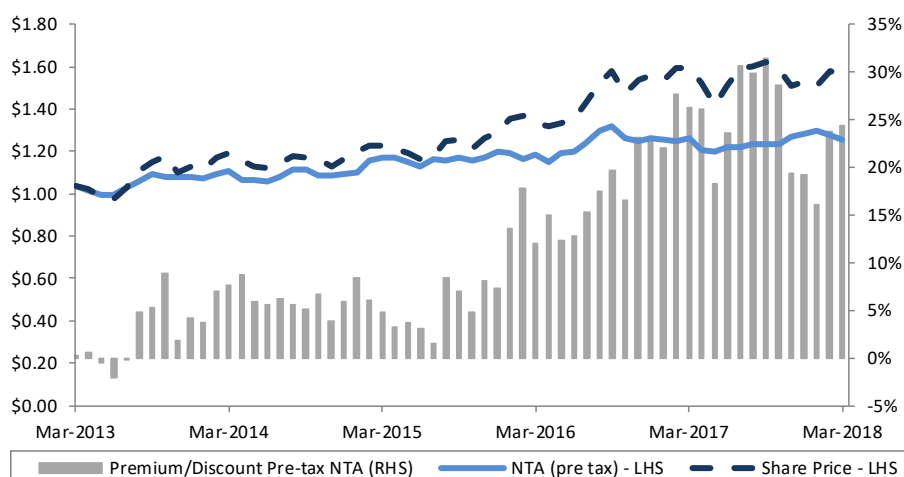
- ◆ **Dividend policy** – The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the company has sufficient profit reserves, franking credits, and it is within prudent business practices. The Company's ability to generate franking credits is dependent upon the receipt of franked dividends from investments and the payment of tax. Dividends are paid on a six-monthly basis and the dividend reinvestment plan is available to shareholders for both the interim and final dividend.
- ◆ **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.

WAX's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
NEC	5.4	0.1
ASL	3.9	0.1
SCO	3.1	0.0
IMD	3.1	0.0
EHL	3.0	0.0
FLT	2.9	0.3
PSI	2.9	0.0
MTR	2.7	0.1
CTD	2.6	0.1
AUB	2.3	0.0
	31.9	0.9

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

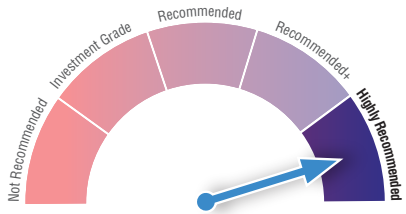
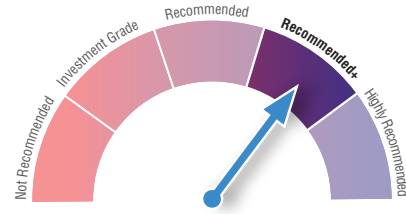
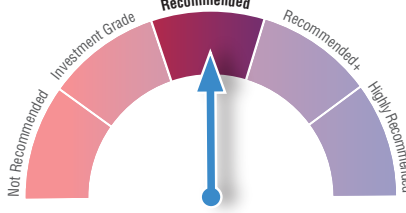
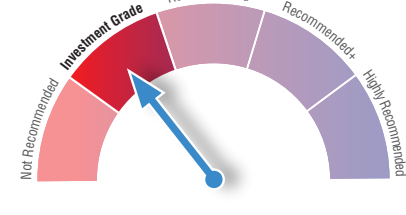
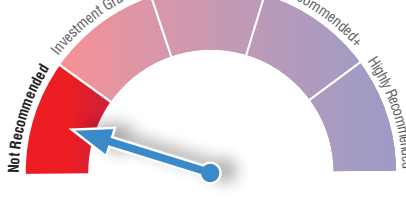
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

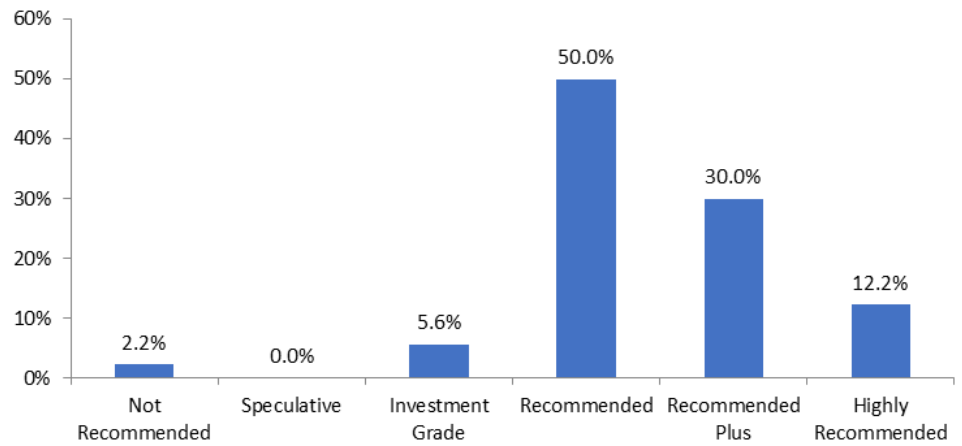
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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