WAM ACTIVE LIMITED

A.B.N. 49 126 420 719

WAM ACTIVE LTD (WAA) - JANUARY 2008
INVESTMENT UPDATE & NTA

WAM Active Limited (WAA) listed on the Australian Stock Exchange on the 11th January 2008 after raising $15.4 million.

WAA offers investors exposure to an active trading style with the aim of achieving a sound return with a low correlation to traditional markets. This was achieved in our first month with the fund outperforming the All Ordinaries Index by 11.53%.

The investment objectives of WAA are to derive an absolute return, to deliver investors an income stream in the form of fully franked dividends and to preserve capital.

Going forward, the monthly NTA announcement will usually be in a more structured format. For our first, we thought it was important to give investors an insight into our investment process.

In a falling market with high volatility our focus has been on capital preservation. Our belief is that this current market shake out will provide some opportunities over the next 12 months, particularly in the mid and small cap arena. Initially we have focussed on preserving capital. Our trading strategy has been centred on takeover arbitrages, trading some capital raisings and looking for short selling opportunities.

In January the gross portfolio increased 0.28% while the All Ordinaries fell 11.25%.

The NTA before tax as at 31 January 2008 was $0.987 per share and the NTA after tax was $0.986 per share. The NTA at the close of the issue was $0.984 per share.

As at 31 January 2008, listed equities made up 12.3% of the portfolio with 87.7% being held in fixed interest and cash.

As at 31 January we had made the following investments:

1) 7.2% of the portfolio was invested in Symbion Limited (SYB) at $3.89 as a takeover arbitrage. Symbion is currently under takeover by Primary Healthcare at $4.10 per share. We bought with the logic that once acceptances move over 50%, Primary would make the bid unconditional and we would receive the takeover proceeds 28 days later which has now occurred. We bought expecting to receive $4.10 a share within 60 days. This would have resulted in an annualised return of 30.8%. Due to the bid now going unconditional, our annualised return will be 53%.

2) 3.0% of the portfolio was invested in Jubilee Mines Ltd (JBM), another takeover arbitrage. Our purchase price was $22.51 with the bid price of $23.00. We expected to receive the takeover proceeds within 30 days providing an annualised return of around 26.1%, however due to the bid going unconditional our annualised return was 76.7%.

3) 1.0% was invested in Rio Tinto Ltd (RIO) for the takeover trade.

4) 0.8% was invested in Everest Babcock and Brown Alternative Investment Trust (EBI) as a discount to assets trade. When purchased at $2.50 our appraised discount to NTA was close to 40%.

5) 0.3% in Audax Resources Ltd (ADX) through a placement.

Since the end of January, 1.1% of the portfolio has been traded in Macarthur Coal Ltd (MCC) for a 10% gain, on the global coal shortage. We have sold our EBI position for a 5% gain, part of our Rio Tinto Ltd (RIO) position, invested 0.5% of the portfolio into Allegiance Mining NL (AGM) on a takeover arbitrage and 0.6% in an Ammtec Ltd (AEC) placement and nearly 2.0% in Dyno Nobel Ltd (DXL), together with other smaller investments.

Market Outlook

January was the worst month on the Australian share market since the October crash in 1987. The All Ordinaries Index closed 11.3 per cent lower for the month, after being down 18.7 per cent at one stage. As you would expect in volatile times, the smaller stocks were hardest hit. The Small Ordinaries Index fell 14.4 per cent for the month as panic and a litany of margin selling of stocks took hold. In effect we witnessed a significant unwinding of high gearing levels of investors that had built up gradually over the course of the four and half year bull market. The trigger for this unwinding was a drop in equity prices in the United States, which now looks likely to fall into recession following a collapse in the financial and property markets.

Unlike previous declines in the market over the last five years, we do not expect a sharp bounce back in the near term. History shows that when the United States experiences a recession, its share market declines on average 26 per cent over a period of anywhere between 6 and 24 months. That said, we also believe the bulk of the decline in the Australian share market has taken place and valuations are increasingly becoming attractive. Make no mistake, we have entered a bear market and sentiment will get worse before it gets better. This all takes time, especially if the economy slows and earnings suffer. It could well be that things don't improve until year end, but as we have said opportunities will appear and in particular in the small end of the market where many stocks will be totally forgotten and unloved. We look forward to finding these opportunities.

In WAM Active we have deliberately kept most of the funds in cash waiting for the market's volatility to reduce and investment opportunities to present themselves.

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