



**WAM CAPITAL LTD (WAM)**  
**ABN 34 086 587 395**  
**INVESTMENT UPDATE & NET TANGIBLE ASSETS REPORT**  
**MAY 2012**

WAM Capital Limited (WAM) is an investor in listed Australian equities. The investment objectives are to deliver a rising stream of fully franked dividends, to provide capital growth and to preserve capital. WAM concentrates on identifying undervalued growth companies, generally found in the small to medium industrial sector.

**Outperformance against sharemarket**

Since inception, the WAM Investment Portfolio has outperformed the overall sharemarket - its strong performance against the S&P/ASX All Ordinaries Accumulation Index is shown in the table below. The performance relates to investments and excludes expenses, fees and taxes.

Performance as at 31 May 2012	1 Mth %	6 Mths %	Fin Ytd %	1 Year %	3 Yrs %pa	5 Yrs %pa	10 Yrs %pa	Since Inception %pa (Aug-99)
WAM Investment Portfolio	-2.2%	+4.9%	+3.7%	+1.2%	+18.1%	+4.1%	+13.2%	+17.6%
S&P/ASX All Ordinaries Accumulation Index	-6.9%	+1.0%	-7.3%	-9.5%	+7.1%	-4.1%	+6.6%	+6.9%
<b>Outperformance</b>	<b>+4.7%</b>	<b>+3.9%</b>	<b>+11.0%</b>	<b>+10.7%</b>	<b>+11.0%</b>	<b>+8.2%</b>	<b>+6.6%</b>	<b>+10.7%</b>

**NTA figures**

The following Net Tangible Asset (NTA) figures are after the payment of a fully franked interim dividend of 5.5 cents per share paid on the 23 March 2012. The figures have not been adjusted for the options on issue below.

<b>NTA before tax</b>	<b>159.51c</b>
<b>NTA after tax and before tax on unrealised gains</b>	<b>158.69c*</b>
<b>NTA after tax</b>	<b>155.64c**</b>

\* Includes tax liabilities of 0.82 cents per share

\*\* Includes the net effect of 0.82 cents of tax liabilities and 3.05 cents of deferred tax liabilities

## **Market outlook**

May was a torrid month for the Australian equity market with the S&P/ASX All Ordinaries Accumulation Index down 6.9%. This came after a relatively good start to 2012 and erased much of this years gain. The European sovereign debt crisis continued as a constant theme. The crisis weighed heavily on equity markets following a brief respite due to liquidity measures adopted by the ECB from December to March. Greece is now seemingly edging closer to a Euro exit and Spain to a bailout of its banking system.

However more worrying for Australian investors were signs of a slowdown in China and the mining majors making noises about the high cost and low productivity of Australian projects. This led to resources, and particularly the small resources sector, being sold off aggressively during May. Adding to the Chinese slowdown was the worsening macroeconomic data from US. This suggests the US recovery is starting to wane leaving no economic powerhouse to drive global growth.

Following a ferocious pace of earnings downgrades in April, the trend continued in May with downgrades from Myer and Toll Holdings. We are expecting further earnings downgrades from companies in the coming weeks. The Australian Bureau of Statistics reported a drop in retail sales, house prices and building approvals, which provides further evidence of the worsening economic environment.

Despite the Reserve Bank cutting interest rates by 0.5% in early May, Australian equities continued their falls. The RBA cut rates by 0.25% in June but traders are still pricing in further possible rate cuts in 2013. We believe a series of rate cuts will ultimately be a positive for industrial companies as they will stimulate the non-mining economy.

Government bond yields have tumbled globally over recent weeks with short terms bond yields even turning negative in some instances. The German 2 year notes saw yields of -0.12% at one point. Government bond yields are now hitting multi-decade lows and in some case all time historic lows across many different countries including the US, Australia, Germany and the Netherlands. UK 10 year government bond rates are at their lowest levels since 1715. Australian 10 year bond yields have fallen from 4.08% at the 31st March to 3.07% at the time of writing a fall of 25%. These steep falls in yields have been greater than the decline seen in equity markets and the current gap between the two suggests a significant dislocation to the normalised relationship between the two asset classes. Both the speed and the size of the declines recorded suggest the bond market is pricing in a significant global downturn. If this is the case, it would then infer a further drop in equity markets in the coming months in order to remove the current dislocations we are seeing.

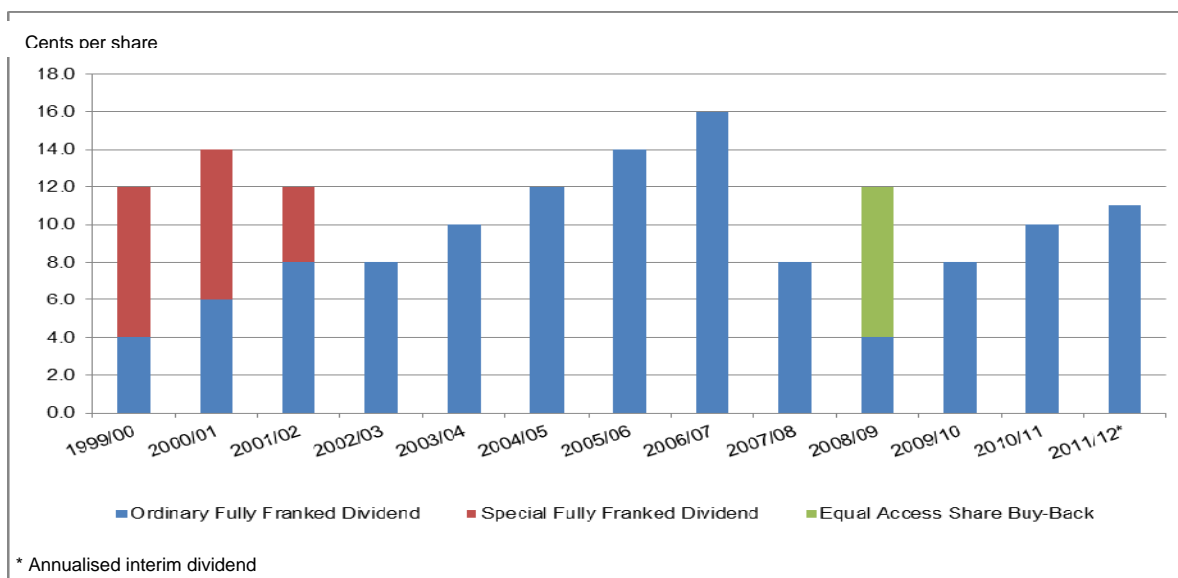
Given the recent movements in the bond market and deteriorating global and local macroeconomic picture we have become more conservative in our outlook for equity markets in 2013. It took WAM Capital 1.83 years for the investment portfolio to return to its pre GFC level. It is now 20% above that level. While the S&P/ASX All Ordinaries Accumulation Index is still well off its pre GFC peak. Falling equity markets always provide opportunities.

## Dividends – 5.5 cents per share fully franked interim

On 23 March 2012, the Company paid a fully franked interim dividend of 5.5 cents per share. This is a 10% increase on the previous year's interim dividend.

The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the Company has sufficient franking credits and it is within prudent business practices. It must also comply with Government legislation and the ATO's interpretation of a company's ability to pay franked dividends. Dividends are paid on a six-monthly basis.

Government legislation introduced in June 2010 enabled companies to pay dividends as long they are deemed solvent (and not only if they make a profit or have sufficient retained earnings). Dividend payments will be made with consideration to cash flow, cash holdings and available franking credits. This means WAM Capital will always be in a position to pay dividends providing it is solvent.



## Option issue – 1 for 1 bonus issue

On 2 April 2012, the Board announced a 1 for 1 bonus issue of options to acquire ordinary shares in the capital of the Company. The options were allotted to shareholders on 3 May 2012. The options have an exercise price of \$1.60 per share and can be exercised at any time on or before 31 July 2013. The options are currently trading on the ASX under the code WAMO.

As at 7 June 2012, 25,550 options have been exercised for a total consideration of \$40,880 with a remaining balance of outstanding options being 106,794,404.

## Portfolio structure

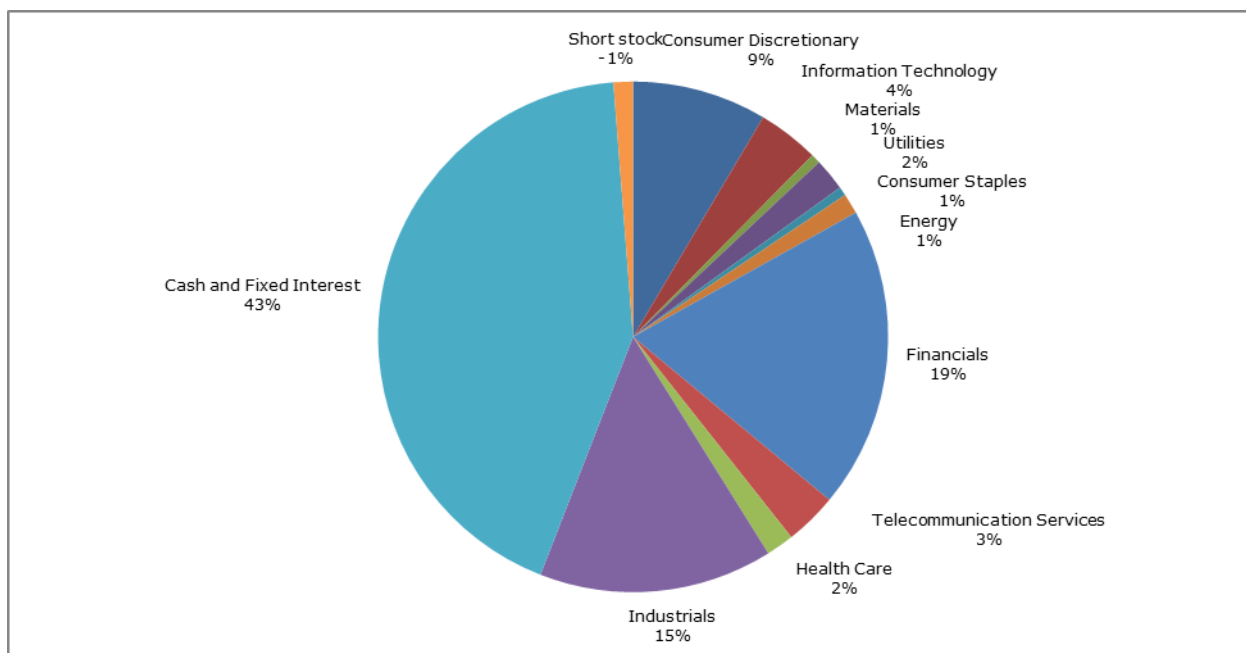
As at 31 May 2012, listed securities made up 56.6% of the portfolio with fixed interest and cash making up the remaining 43.4%. Our focus is on companies with strong earnings per share growth that trade on attractive earnings multiples, are well positioned in growth industries and have proven management. We continue to research thoroughly to identify companies that meet this profile, and have carried out over 800 company visits a year.

Investment Type	As at 30 April 2012		As at 31 May 2012	
	\$m	%	\$m	%
Listed Equities	99.2	55.4%	98.8	56.6%
Fixed Interest and Cash	79.8	44.6%	75.7	43.4%
<b>Long Portfolio</b>	<b>179.0</b>	<b>100.0%</b>	<b>174.5</b>	<b>100.0%</b>
<b>Short Portfolio</b>	<b>(2.7)</b>		<b>(2.2)</b>	
<b>Total Fund Size</b>	<b>\$176.3m</b>		<b>\$172.3m</b>	
	<b>No.</b>		<b>No.</b>	
<b>Total ordinary shares on issue</b>	106,819,954		106,845,504	
<b>Total options on issue</b>	106,819,954		106,794,404	

As at 31 May 2012 the major securities held in the portfolio were as follows.

Code	Company	Market Value \$	Market Value as % Gross Assets
LDW	Ludowici Limited	5,585,527	3.2%
ELI	Emerging Leaders Investments Limited	4,667,459	2.7%
IBC	Ironbark Capital Limited	3,802,774	2.2%
CBAPB	CBA Perpetual Exc Resale Listed Sec - PERLS IV	3,665,062	2.1%
BRG	Breville Group Limited	2,946,369	1.7%
CCQ	Contango Capital Partners Limited	2,759,747	1.6%
MMS	McMillan Shakespeare Limited	2,677,942	1.6%
SDG	Sunland Group Limited	2,408,227	1.4%
EPX	Ethane Pipeline Income Fund	2,270,540	1.3%
CYA	Century Australia Investments Limited	2,190,112	1.3%
RHG	RHG Limited	2,101,086	1.2%
SKE	Skilled Group Limited	2,047,439	1.2%
AIX	Australian Infrastructure Fund	2,024,290	1.2%
WEB	Webjet Limited	1,990,858	1.2%
AMM	Amcom Telecommunications Limited	1,941,489	1.1%
RKN	Reckon Limited	1,923,554	1.1%
TLS	Telstra Corporation Limited	1,814,796	1.1%
IIN	iiNet Limited	1,773,978	1.0%
ILF	ING Real Estate Community Living Group	1,765,815	1.0%
CYG	Coventry Group Limited	1,735,800	1.0%

## Portfolio structure – sector allocation



## Performance – yearly comparison to S&P/ASX All Ordinaries Accumulation Index

The table below shows the performance of WAM since listing to 31 May 2012 on a financial year basis. The performance data is before all expenses, fees and taxes. It is used as a guide to the performance of the Company's investment portfolio against the S&P/ASX All Ordinaries Accumulation Index which is also a before tax and expenses measure.

Financial Year	Gross Portfolio	S&P/ASX All Ordinaries Accumulation Index	Outperformance
1999/2000	+33.3%	+11.3%	<b>+22.0%</b>
2000/2001	+30.2%	+8.9%	<b>+21.3%</b>
2001/2002	+32.7%	-4.5%	<b>+37.2%</b>
2002/2003	+12.3%	-1.1%	<b>+13.4%</b>
2003/2004	+27.3%	+22.4%	<b>+4.9%</b>
2004/2005	+13.9%	+24.8%	<b>-10.9%</b>
2005/2006	+27.4%	+24.2%	<b>+3.2%</b>
2006/2007	+44.1%	+30.3%	<b>+13.8%</b>
2007/2008	-23.0%	-12.1%	<b>-10.9%</b>
2008/2009	-3.2%	-22.2%	<b>+19.0%</b>
2009/2010	+29.8%	+13.8%	<b>+16.0%</b>
2010/2011	+17.9%	+12.2%	<b>+5.7%</b>
YTD 2011/2012	+3.7%	-7.3%	<b>+11.0%</b>

## Performance - monthly comparison

The table below shows the month by month performance of WAM against the S&P/ASX All Ordinaries Accumulation index.

	<b>Aug 99</b>	<b>Sep 99</b>	<b>Oct 99</b>	<b>Nov 99</b>	<b>Dec 99</b>	<b>Jan 00</b>	<b>Feb 00</b>	<b>Mar 00</b>	<b>Apr 00</b>
WAM Capital*	+1.4%	+5.1%	+4.1%	+11.0%	+4.9%	-2.0%	+5.4%	+5.3%	-5.7%
S&P/ASX All Ord Accum	-2.5%	-1.2%	+0.5%	+5.4%	+5.6%	-0.7%	+1.9%	+0.5%	-1.5%
	<b>May 00</b>	<b>Jun 00</b>	<b>Jul 00</b>	<b>Aug 00</b>	<b>Sep 00</b>	<b>Oct 00</b>	<b>Nov 00</b>	<b>Dec 00</b>	<b>Jan 01</b>
WAM Capital*	-2.9%	+3.6%	+2.9%	+5.2%	-0.7%	+2.5%	+1.9%	+0.1%	+1.7%
S&P/ASX All Ord Accum	-1.3%	+7.7%	-1.3%	+1.7%	+0.2%	-1.1%	+1.1%	-2.0%	+4.4%
	<b>Feb 01</b>	<b>Mar 01</b>	<b>Apr 01</b>	<b>May 01</b>	<b>Jun 01</b>	<b>July 01</b>	<b>Aug 01</b>	<b>Sep 01</b>	<b>Oct 01</b>
WAM Capital*	-0.2%	-3.7%	+3.9%	+6.7%	+6.9%	-1.0%	+4.6%	-2.9%	+8.6%
S&P/ASX All Ord Accum	-0.2%	-4.8%	+5.7%	+1.6%	+3.8%	-4.5%	-1.3%	-6.7%	+6.8%
	<b>Nov 01</b>	<b>Dec 01</b>	<b>Jan 02</b>	<b>Feb 02</b>	<b>Mar 02</b>	<b>Apr 02</b>	<b>May 02</b>	<b>Jun 02</b>	<b>Jul 02</b>
WAM Capital*	+3.8%	+3.3%	+7.0%	+3.1%	+4.9%	-0.4%	+0.7%	-2.2%	-3.0%
S&P/ASX All Ord Accum	+3.4%	+2.7%	+1.3%	-1.1%	+0.8%	-1.8%	+0.9%	-4.4%	-4.1%
	<b>Aug 02</b>	<b>Sep 02</b>	<b>Oct 02</b>	<b>Nov 02</b>	<b>Dec 02</b>	<b>Jan 03</b>	<b>Feb 03</b>	<b>Mar 03</b>	<b>Apr 03</b>
WAM Capital*	+3.9%	-1.1%	+1.1%	+1.6%	+1.5%	+1.3%	-1.7%	-0.4%	+3.8%
S&P/ASX All Ord Accum	+1.8%	-4.1%	+2.6%	+1.5%	-1.5%	-1.3%	-5.1%	+3.4%	+4.4%
	<b>May 03</b>	<b>Jun 03</b>	<b>Jul 03</b>	<b>Aug 03</b>	<b>Sept 03</b>	<b>Oct 03</b>	<b>Nov 03</b>	<b>Dec 03</b>	<b>Jan 04</b>
WAM Capital*	+1.5%	+3.5%	+3.6%	+5.2%	+3.7%	+5.4%	-0.7%	+3.6%	+2.5%
S&P/ASX All Ord Accum	+0.5%	+1.3%	+3.6%	+3.5%	-0.1%	+3.5%	-2.1%	+3.7%	-0.7%
	<b>Feb 04</b>	<b>Mar 04</b>	<b>Apr 04</b>	<b>May 04</b>	<b>Jun 04</b>	<b>Jul 04</b>	<b>Aug 04</b>	<b>Sep 04</b>	<b>Oct 04</b>
WAM Capital*	+2.7%	+0.1%	-1.3%	-0.8%	+1.0%	+2.4%	+1.2%	+2.5%	+2.9%
S&P/ASX All Ord Accum	+3.1%	+2.0%	-0.1%	+1.6%	+2.7%	+0.6%	+1.1%	+3.8%	+3.1%
	<b>Nov 04</b>	<b>Dec 04</b>	<b>Jan 05</b>	<b>Feb 05</b>	<b>Mar 05</b>	<b>Apr 05</b>	<b>May 05</b>	<b>Jun 05</b>	<b>Jul 05</b>
WAM Capital*	+3.3%	+0.7%	+2.7%	-0.2%	-0.8%	-4.2%	+0.0%	+2.8%	+2.2%
S&P/ASX All Ord Accum	+4.6%	+3.0%	+1.3%	+1.8%	-0.7%	-3.8%	+3.4%	+4.5%	+2.8%
	<b>Aug 05</b>	<b>Sep 05</b>	<b>Oct 05</b>	<b>Nov 05</b>	<b>Dec 05</b>	<b>Jan 06</b>	<b>Feb 06</b>	<b>Mar 06</b>	<b>Apr 06</b>
WAM Capital*	+4.0%	+2.7%	+0.1%	+3.1%	+0.8%	+1.6%	+4.9%	+5.3%	+2.1%
S&P/ASX All Ord Accum	+2.2%	+4.8%	-3.8%	+4.4%	+3.0%	+3.7%	+0.7%	+4.8%	+2.4%
	<b>May 06</b>	<b>Jun 06</b>	<b>Jul 06</b>	<b>Aug 06</b>	<b>Sep 06</b>	<b>Oct 06</b>	<b>Nov 06</b>	<b>Dec 06</b>	<b>Jan 07</b>
WAM Capital*	-2.3%	+0.5%	+0.4%	+3.4%	+2.4%	+4.7%	+3.6%	+6.1%	+3.8%
S&P/ASX All Ord Accum	-4.3%	+1.9%	-1.5%	+3.2%	+1.3%	+4.8%	+2.5%	+3.6%	+2.0%
	<b>Feb 07</b>	<b>Mar 07</b>	<b>Apr 07</b>	<b>May 07</b>	<b>Jun 07</b>	<b>Jul 07</b>	<b>Aug 07</b>	<b>Sep 07</b>	<b>Oct 07</b>
WAM Capital*	+0.4%	+1.9%	+2.6%	+4.7%	+3.3%	+0.3%	-4.2%	+1.7%	+3.1%
S&P/ASX All Ord Accum	+1.6%	+3.3%	+3.0%	+3.2%	-0.1%	-1.9%	+1.7%	+5.8%	+3.1%
	<b>Nov 07</b>	<b>Dec 07</b>	<b>Jan 08</b>	<b>Feb 08</b>	<b>Mar 08</b>	<b>Apr 08</b>	<b>May 08</b>	<b>Jun 08</b>	<b>Jul 08</b>
WAM Capital*	-4.8%	-1.1%	-9.5%	-1.3%	-5.3%	+1.7%	+2.3%	-7.9%	-1.6%
S&P/ASX All Ord Accum	-2.4%	-2.4%	-11.2%	+0.3%	-4.1%	+4.6%	+2.4%	-7.3%	-5.2%
	<b>Aug 08</b>	<b>Sep 08</b>	<b>Oct 08</b>	<b>Nov 08</b>	<b>Dec 08</b>	<b>Jan 09</b>	<b>Feb 09</b>	<b>Mar 09</b>	<b>Apr 09</b>
WAM Capital*	+1.7%	-5.3%	-9.2%	-5.6%	+3.1%	-1.5%	+1.1%	+2.6%	+5.2%
S&P/ASX All Ord Accum	+4.0%	-10.6%	-13.9%	-7.2%	-0.1%	-4.9%	-4.3%	+8.1%	+6.1%
	<b>May 09</b>	<b>Jun 09</b>	<b>Jul 09</b>	<b>Aug 09</b>	<b>Sep 09</b>	<b>Oct 09</b>	<b>Nov 09</b>	<b>Dec 09</b>	<b>Jan 10</b>
WAM Capital*	+3.6%	+3.9%	+8.2%	+7.6%	+6.9%	+2.3%	+0.6%	+1.6%	-2.4%
S&P/ASX All Ord Accum	+2.2%	+3.9%	+7.7%	+6.5%	+6.1%	-1.9%	+1.9%	+3.7%	-5.9%
	<b>Feb 10</b>	<b>Mar 10</b>	<b>Apr 10</b>	<b>May 10</b>	<b>Jun 10</b>	<b>Jul 10</b>	<b>Aug 10</b>	<b>Sept 10</b>	<b>Oct 10</b>
WAM Capital*	-0.5%	+3.7%	+0.8%	-2.4%	+0.7%	+2.5%	+1.5%	+4.4%	+1.4%
S&P/ASX All Ord Accum	+1.8%	+5.8%	-1.2%	-7.6%	-2.6%	+4.2%	-0.7%	+5.0%	+2.2%
	<b>Nov 10</b>	<b>Dec 10</b>	<b>Jan 11</b>	<b>Feb 11</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>May 11</b>	<b>Jun 11</b>	<b>Jul 11</b>
WAM Capital*	+2.3%	+3.7%	+1.4%	+2.1%	+0.1%	+1.2%	-1.4%	-2.4%	+0.2%
S&P/ASX All Ord Accum	-0.7%	+3.8%	+0.1%	+2.2%	+0.6%	-0.6%	-1.9%	-2.4%	-3.4%
	<b>Aug 11</b>	<b>Sept 11</b>	<b>Oct 11</b>	<b>Nov 11</b>	<b>Dec 11</b>	<b>Jan 12</b>	<b>Feb 12</b>	<b>Mar 12</b>	<b>Apr 12</b>
WAM Capital*	-1.8%	-0.8%	+2.6%	-1.3%	-1.2%	+1.6%	+4.4%	+2.3%	-0.0%
S&P/ASX All Ord Accum	-2.0%	-6.3%	+7.2%	-3.4%	-1.6%	+5.2%	+2.4%	+1.2%	+1.1%
	<b>May 12</b>							<b>Since inception</b>	
WAM Capital*	-2.2%								+701.9%
S&P/ASX All Ord Accum	-6.9%								+135.9%

\*The change in the portfolio before all expenses, fees and taxes

## **For more information**

Please contact Geoff Wilson or Chris Stott.

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