



**WAM RESEARCH LIMITED (WAX)**  
**ABN 15 100 504 541**  
**INVESTMENT UPDATE & NTA – DECEMBER 2011**

WAM Research Limited (WAX) is a listed investment company primarily investing in small to medium sized industrial companies listed on the ASX. The investment objectives are to provide a growing stream of fully franked dividends and to achieve a high real rate of return, comprising both income and capital growth within risk parameters acceptable to the Directors.

<b>Performance as at 31 December 2011</b>	<b>1 Mth %</b>	<b>6 Mths %</b>	<b>Fin Ytd %</b>	<b>1 Yr %</b>	<b>3 Yrs %pa</b>	<b>5 Yrs %pa</b>
WAM Research Limited*	-0.5%	-4.7%	-4.7%	-1.8%	+10.0%	-2.3%
S&P/ASX 300 Industrials Accumulation Index	-0.1%	-4.6%	-4.6%	-3.8%	+7.9%	-4.0%
<b>Outperformance</b>	<b>-0.4%</b>	<b>-0.1%</b>	<b>-0.1%</b>	<b>+2.0%</b>	<b>+2.1%</b>	<b>+1.7%</b>
S&P/ASX Small Industrials Accumulation Index	-2.3%	-10.5%	-10.5%	-12.8%	+8.9%	-8.0%
<b>Outperformance</b>	<b>+1.8%</b>	<b>+5.8%</b>	<b>+5.8%</b>	<b>+11.0%</b>	<b>+1.1%</b>	<b>+5.7%</b>

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

<b>NTA before tax</b>	<b>80.26c</b>
<b>NTA after tax and before tax on unrealised gains</b>	<b>87.64c*</b>
<b>NTA after tax</b>	<b>87.64c*</b>

\*These figures include tax assets of 7.38 cents per share.

### **Market Outlook**

The markets finished 2011 with a whimper with the S&P/ASX All Ordinaries Accumulation Index down 1.6% for December and down 11.4% for the calendar year 2011. The RBA cut rates by 0.25% at the start of the month which followed up the Melbourne Day rate cut but this did little to improve investor sentiment with retail stocks underperforming. The current European Sovereign debt crisis continued to weigh on equity markets and investor confidence, as it has done for much of year it, which counteracted any positive feeling from the rate cut domestically. A robust solution still has to be found, despite EU heads of state outlining new/improved measures at a meeting in early December. Thus this issue won't be far from investors minds for the first part of 2012 and may continue to weigh on global equity markets generally.

## Market Outlook (continued)

The struggles of Australian retailers were drawn into even sharper focus this month with profit downgrades by Billabong, JB Hi-Fi and Kathmandu. This highlights how the broader economy is struggling excluding the mining sector. With half yearly results due in late January and early February, we expect more negative surprises rather than positive from companies reporting. Given the current headwinds facing equity markets and the global economy, we are maintaining higher than average cash levels while continuing to rigorously research for companies that meet our investment criteria.

## Dividends

On 21 October 2011, the company paid a fully franked final dividend of 3.0 cents per share. This brings the FY2011 full year dividend to 6.0 cents per share fully franked.

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. Dividends are paid on a six-monthly basis. Dividend payments will be made with consideration to cash flow, cash holdings and available franking credits.

Providing the company is deemed solvent by the Board, WAX should always be in a position to pay dividends.

## Portfolio Structure

Investment Type	As at 30 November 2011		As at 31 December 2011	
	\$m	%	\$m	%
Listed Equities	67.5	69.0%	56.3	58.2%
Fixed Interest and Cash	29.9	31.0%	40.5	41.8%
<b>Total Fund Size</b>	<b>\$97.4m</b>	<b>100.0%</b>	<b>\$96.8m</b>	<b>100.0%</b>
	<b>No.</b>		<b>No.</b>	
<b>Total ordinary shares on issue</b>	119,983,168		119,983,168	

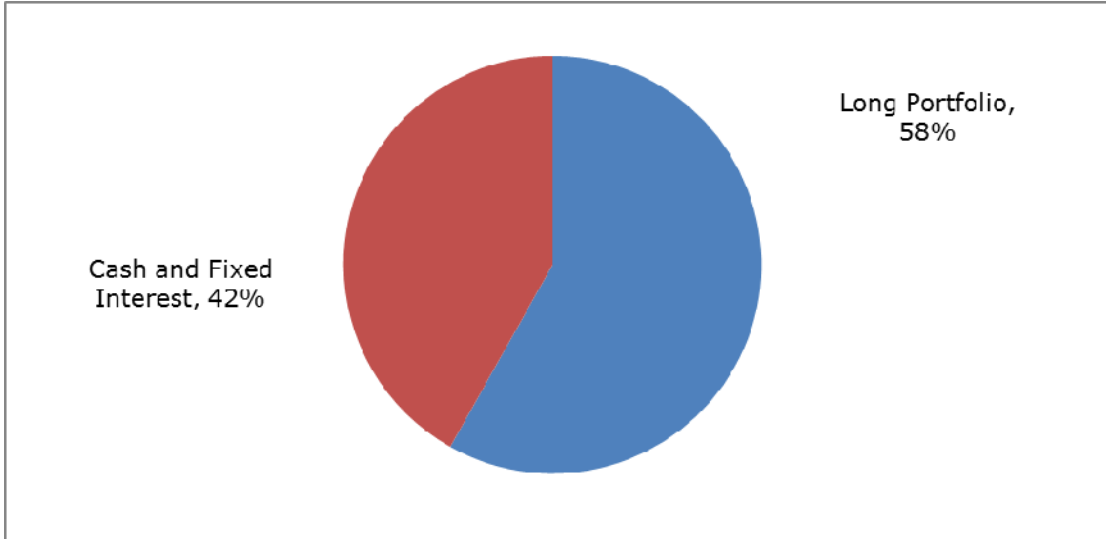
**Portfolio Structure (continued)**

At 31 December 2011 the major securities held in the portfolio were:

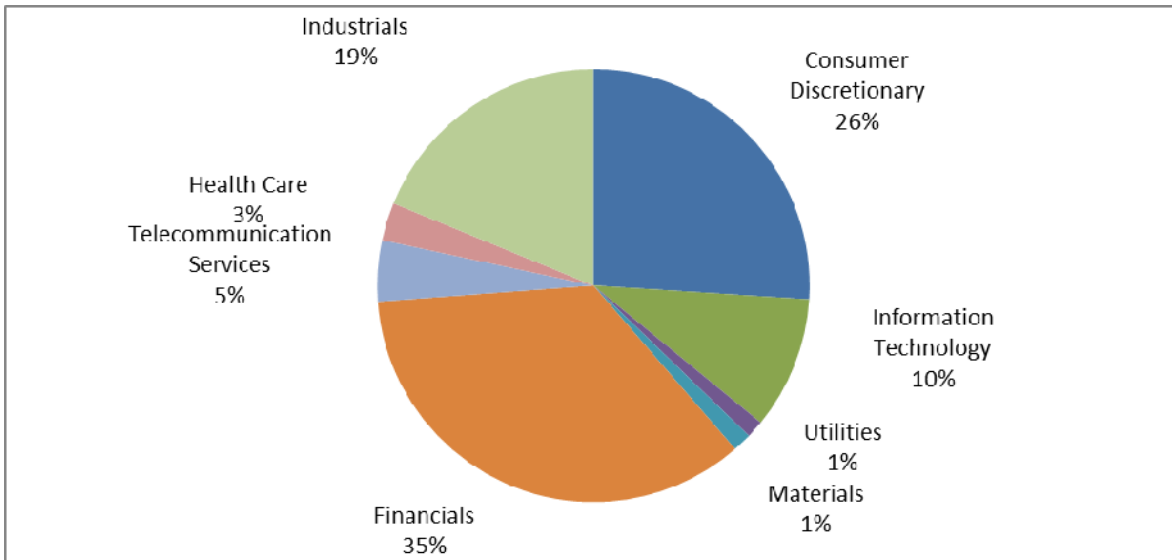
<b>Code</b>	<b>Company</b>	<b>Market Value \$</b>	<b>Market Value as % of Gross Assets</b>
NAB	National Australia Bank Limited*	5,372,800	5.5%
APE	AP Eagers Limited	4,118,165	4.3%
RKN	Reckon Limited	3,767,877	3.9%
MMS	McMillan Shakespeare Limited	3,418,081	3.5%
MYS	MyState Limited	3,080,818	3.2%
ANZ	Australia and New Zealand Banking Group Limited	2,720,225	2.8%
BRG	Breville Group Limited	2,561,297	2.6%
ARP	ARB Corporation Limited	2,240,649	2.3%
WBB	Wide Bay Australia Limited	2,147,432	2.2%
SGN	STW Communications Group Limited	1,738,093	1.8%
BKL	Blackmores Limited	1,595,573	1.6%
IPP	Iproperty Group Limited	1,499,740	1.5%
COF	Coffey International Limited	1,477,426	1.5%
AMM	Amcom Telecommunication Limited	1,435,481	1.5%
CIW	Clime Investment Management Limited	1,419,373	1.5%
SAI	SAI Global Limited	1,405,445	1.5%
RCR	RCR Tomlinson Limited	1,387,205	1.4%
AAD	Ardent Leisure Group	1,330,571	1.4%
SKE	Skilled Group Limited	1,304,462	1.3%
SVWPA	Seven Network Limited Preference Shares	1,275,000	1.3%

\*Indicates that options were outstanding against the holding.

## Portfolio Structure - Asset Allocation



## Long Portfolio Structure - Sector Allocation



## Performance

Set out below is the performance of WAX since listing to 31 December 2011 on a financial year basis. The performance data is before all expenses, fees and taxes and is used as a guide to how the company's investment portfolio has performed against the S&P/ASX 300 Industrials Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which are both before tax and expenses measures.

Previously performance was compared against the S&P/ASX All Ordinaries Accumulation Index. The equity portfolio is made up of small and large industrial companies and it is believed that the S&P/ASX Small Industrials Accumulation Index and the S&P/ASX 300 Industrials Accumulation Index better reflect how the portfolio has previously been invested and will be invested going forward.

Thus these benchmarks represent a more effective way to evaluate the fund's performance based on the underlying composition of the portfolio.

Financial Year	Gross Portfolio	S&P/ASX 300 Industrials Accumulation Index	Outperformance	S&P/ASX Small Industrials Accumulation Index	Outperformance
2003/2004	+6.5%	+13.5%	<b>-7.0%</b>	+10.7%	<b>-4.2%</b>
2004/2005	+5.2%	+22.4%	<b>-17.2%</b>	+26.1%	<b>-20.9%</b>
2005/2006	+13.4%	+17.2%	<b>-3.8%</b>	+20.1%	<b>-6.7%</b>
2006/2007	+30.7%	+29.5%	<b>+1.2%</b>	+38.2%	<b>-7.5%</b>
2007/2008	-31.6%	-26.7%	<b>-4.9%</b>	-36.5%	<b>+4.9%</b>
2008/2009	-4.8%	-14.5%	<b>+9.7%</b>	-21.6%	<b>+16.8%</b>
2009/2010	+10.3%	+14.5%	<b>-4.2%</b>	+10.3%	<b>+0.0%</b>
2010/2011	+17.3%	+9.2%	<b>+8.1%</b>	+15.7%	<b>+1.6%</b>
YTD 2011/2012	-4.7%	-4.6%	<b>-0.1%</b>	-10.5%	<b>+5.8%</b>