WAM RESEARCH LIMITED (WAX)
ABN 15 100 504 541
INVESTMENT UPDATE & NET TANGIBLE ASSETS REPORT
MAY 2012

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.

Outperformance

The performance of the WAX Investment Portfolio against the various benchmarks is set out 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 Yr %**	**3 Yrs %pa**	**5 Yrs %pa**
WAX Investment Portfolio	-2.2%	+8.5%	+3.9%	+1.0%	+11.8%	-2.4%
S&P/ASX 300 Industrials Accumulation Index	-4.9%	+5.8%	+1.1%	+0.1%	+10.1%	-4.9%
Outperformance	**+2.7%**	**+2.7%**	**+2.8%**	**+0.9%**	**+1.7%**	**+2.5%**
S&P/ASX Small Industrials Accumulation Index	-6.9%	+8.1%	-0.9%	-2.6%	+9.9%	-8.8%
Outperformance	**+4.7%**	**+0.4%**	**+4.8%**	**+3.6%**	**+1.9%**	**+6.4%**

NTA figures

The following Net Tangible Asset (NTA) figures are after the payment of a fully franked interim dividend of 3.25 cents per share paid on 23 April 2012.

NTA before tax	**83.31c**
NTA after tax and before tax on unrealised gains	**88.89c***
NTA after tax	**88.89c***

*These figures include tax assets of 5.58 cents per share.

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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.

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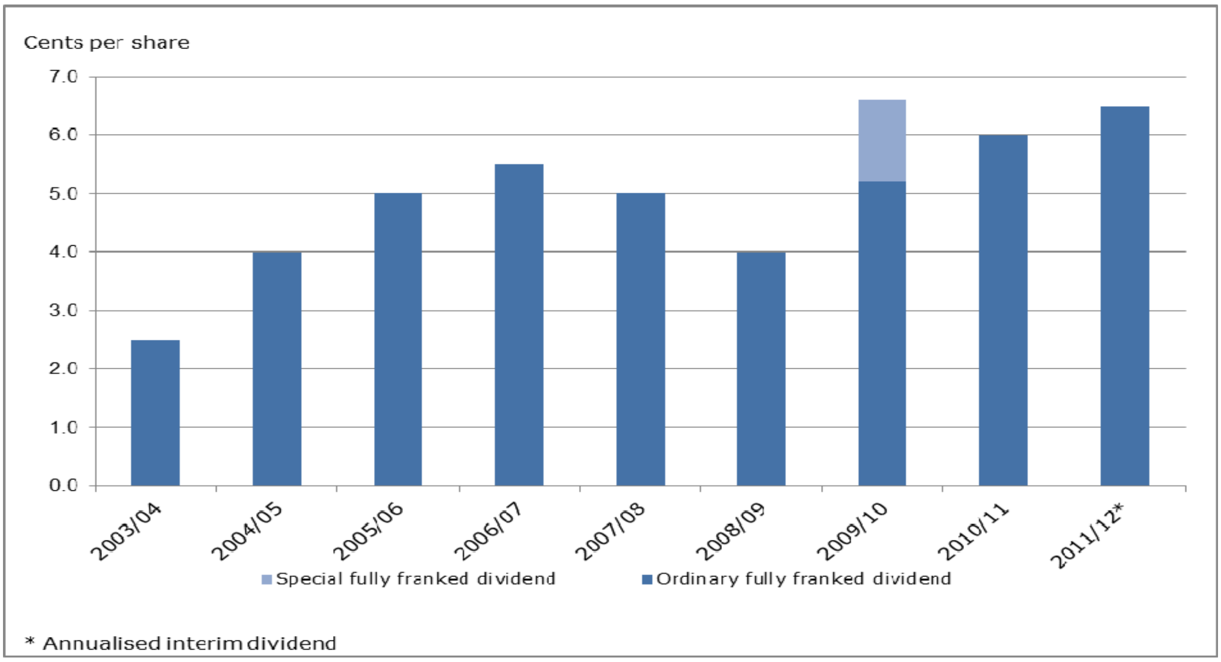
Dividends – 3.25 cents per share fully franked interim

On 23 April 2012, the Company paid a fully franked interim dividend of 3.25 cents per share, which included a 2.5 cent LIC capital gain. This was an 8.3% 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 Research will always be in a position to pay dividends providing it is solvent.



Portfolio structure

Investment Type	As at 30 April 2012 $m	%		As at 31 May 2012 $m	%
Listed Equities	66.4	63.7%		55.2	54.2%
Fixed Interest and Cash	37.9	36.3%		46.6	45.8%
Total Fund Size	**$104.3m**	**100.0%**		**$101.8m**	**100.0%**
Total number ordinary shares on issue	120,854,228			120,854,228	

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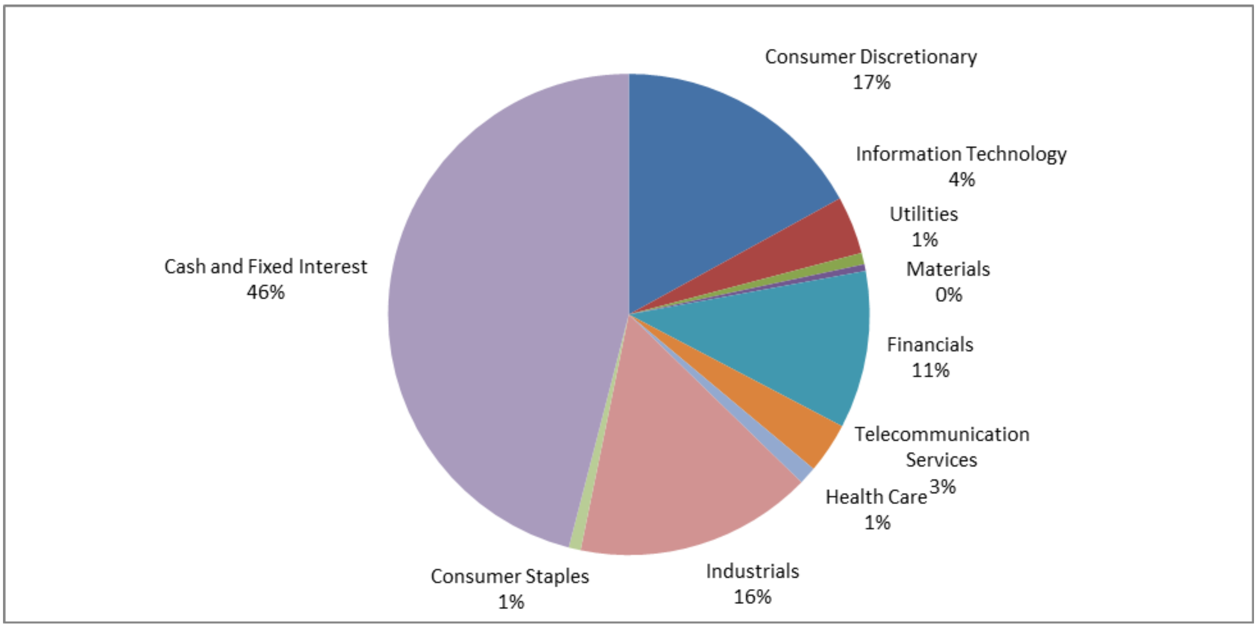
Portfolio structure (continued)

At 31 May 2012 the major securities held in the portfolio were as follows:

Code	Company	Market Value $	Market Value as % of Gross Assets
APE	AP Eagers Limited	5,496,858	5.4%
BRG	Breville Group Limited	3,393,573	3.3%
LDW	Ludowici Limited	3,339,121	3.3%
MMS	McMillan Shakespeare Limited	2,917,815	2.9%
ARP	ARB Corporation Limited	2,507,324	2.5%
SKE	Skilled Group Limited	2,306,293	2.3%
WEB	Webjet Limited	2,263,582	2.2%
AMM	Amcom Telecommunication Limited	2,252,520	2.2%
RKN	Reckon Limited	2,233,242	2.2%
CBAPB	CBA Perpetual Exc Resale Listed Sec - PERLS IV	2,086,710	2.1%
FXL	Flexigroup Limited	1,835,749	1.8%
MYS	MyState Limited	1,775,429	1.7%
CIW	Clime Investment Management Limited	1,726,264	1.7%
IPP	iProperty Group Limited	1,698,685	1.7%
FAN	Fantastic Holdings Limited	1,623,806	1.6%
NXT	NEXTDC Limited	1,607,537	1.6%
COF	Coffey International Limited	1,553,671	1.5%
CTD	Corporate Travel Management Limited	1,237,211	1.2%
SVWPA	Seven Network Limited Preference Shares	1,216,500	1.2%
RCR	RCR Tomlinson Limited	1,141,813	1.1%

Portfolio structure - sector allocation



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Performance – yearly comparison
The table below shows the investment performance of WAX 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 300 Industrials Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which are both before tax and expenses measures.

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%	**-7.0%**	+10.7%	**-4.2%**
2004/2005	+5.2%	+22.4%	**-17.2%**	+26.1%	**-20.9%**
2005/2006	+13.4%	+17.2%	**-3.8%**	+20.1%	**-6.7%**
2006/2007	+30.7%	+29.5%	**+1.2%**	+38.2%	**-7.5%**
2007/2008	-31.6%	-26.7%	**-4.9%**	-36.5%	**+4.9%**
2008/2009	-4.8%	-14.5%	**+9.7%**	-21.6%	**+16.8%**
2009/2010	+10.3%	+14.5%	**-4.2%**	+10.3%	**+0.0%**
2010/2011	+17.5%	+9.2%	**+8.3%**	+15.7%	**+1.8%**
YTD 2011/2012	+3.9%	+1.1%	**+2.8%**	-0.9%	**+4.8%**

For more information

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