Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

WAM Capital Limited

Report data as at 30 Apr 2019
Rating issued on 23 May 2019

APIR Code
ASX:WAM

Asset / Sub-Asset Class
Australian Shares
Listed Investment Entities – LICs/LITs

Investment Style
Long / Short

Investment Objective
To deliver investors a rising stream of fully franked dividends, to provide capital growth and preserve capital.

Zenith Assigned Benchmark
S&P/ASX 300 (Accum)

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
LIC	9.38	7.40	-8.35
Benchmark	7.55	11.07	10.31

Fees (% p.a., Incl. GST)
Management Cost: 1.10%
Performance Fee: 22% above All Ordinaries Accum Index subject to being positive. No high water mark

VIEWPOINT

The Company is a Listed Investment Company (LIC) managed by Sydney based Wilson Asset Management (Wilson AM). The Company listed on the Australian Stock Exchange in 1999 and provides investors with exposure to Wilson AM's market and research-driven investment strategy. Zenith regards Wilson AM as a high calibre investment manager who has a long and successful history investing via the strategy. However, recent team changes have lowered our conviction in the Company.

Wilson AM was founded in 1997 by Geoff Wilson, who owns 100% of the business. Wilson AM manages approximately $A 3 billion (as at 30 April 2019) across six LICs. On 29 October 2018, Wilson AM announced the intention of Chief Investment Officer (CIO), Chris Stott, to retire, effective 31 December 2018. Post his departure, Stott continues his role as a Director of two of the Wilson AM LICs (WAM Capital Limited and WAM Microcap Limited). Following this announcement, Geoff Wilson took over the dual roles of Chairman and CIO. While Stott acted as a lead Portfolio Manager, Wilson AMs team based approach means that the existing Portfolio Managers Martin Hickson and Oscar Oberg will continue to manage the Company.

Although Zenith believes Wilson AM's strategies continue to be managed by capable investors, we believe that Stott's departure reduces the experience and depth of the investment team. We also note that whilst the team operates under a team-based approach, Stott was an integral part of the stock selection and portfolio construction process over many years across multiple Wilson AM strategies. Given the change, we believe a period of consolidation is required.

Wilson AM’s approach is absolute return orientated using a combination of two investment strategies: research-driven and market-driven. The research-driven process seeks to identify targets through micro and macroeconomic trends and under-researched opportunities with a focus on free cash flow and an assessment of management, earnings potential, valuation and industry position. The market-driven process seeks to take advantage of relative short-term arbitrages and mispricings in the market including participating in IPOs, placements, block trades and rights issues.

Given Wilson AM's absolute return approach, the Company has the flexibility to invest across the full sector and market capitalisation spectrum. The Company has historically tilted towards small/mid cap stocks and may hold significant levels of cash if opportunities cannot be found.

Zenith believes the Company's differentiated approach, which has a successful long-term track record, is a key attraction for investors. In addition, we note that the Company targets a growing, fully franked dividend income stream to shareholders, which may be an appealing feature.

Zenith views Wilson AM's ongoing commitment to investor communication and engagement programs as best in class. Zenith believes that this is a critical aspect of successful LIC management given the ability of LIC's to materially trade away from their underlying asset values. However, Zenith views reporting of portfolio investment performance as sub-standard, as it typically reports returns before fees rather than after. Zenith sees this as below best practice and out of keeping with contemporary LICs.

COMPANY FACTS

- Benchmark unaware, absolute return style investment strategy
- Typically holds between 50 to 120 stocks
- Short selling only used opportunistically with gross exposure limited to 100% (must be cash backed)

ABSOLUTE RISK (SECTOR)
VERY HIGH
HIGH
MODERATE
LOW
VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)
Geared
Active - Benchmark Unaware
Active - Benchmark Aware
Index - Enhanced/Fundamental
Index

INCOME DISTRIBUTIONS PER
MONTH QUARTER 6 MONTH ANNUM

INVESTMENT TIMEFRAME
1-2 YRS 3-4 YRS 5-6 YRS 7+ YRS

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Listed Investment Companies (LIC)

In assessing the performance of the LIC sector, it is vital to understand how their structure affects the final performance figures as it is materially different to unlisted funds. As listed companies, the portfolio returns generated are exposed to additional volatility from share price movements and can trade at significant premiums or discounts to Net Tangible Assets (NTA).

In addition, the impact of pre and post-tax returns needs to be considered because LICs distribute returns net of company tax, whilst benchmark index returns are quoted on a pre-tax basis. Accordingly, it is difficult to accurately compare shareholder returns to either benchmarks which do not account for tax or realised peer group LICs where the timing of company tax on realised gains differs.

As an indication however, a series of return data can be viewed on the basis of the returns generated by:

- Share price and dividends
- Change in pre-tax NTA value and dividends
- Returns generated internally by the investment portfolio

For comparison purposes, the use of the internal portfolio returns versus the benchmark gives the closest measure of the investment manager's skill in generating returns. However, these returns may not be able to be fully crystallised to shareholders given the potential for share price movements.

Caution should be used in the comparison of these figures as share price and pre-tax asset NTA are measures which take into account company tax paid on realised capital gains and unfranked income, whereas benchmark performance is a wholly untaxed measure.

At various times when assessed on a purely quantitative basis, a LIC can trade away from its NTA which may represent good buying or selling opportunities. While these instances may boost investment returns, there is no guarantee that the discount or premium will converge to NTA, therefore gains can not be crystallised.

Australian Equities

The sector incorporates both benchmark aware and benchmark unaware strategies but the funds focus predominantly on large capitalisation stocks. The sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Despite the competitiveness of the sector, the Australian share market has historically provided many opportunities for active management, with the median active manager outperforming a passive index over the longer term.

The Australian share market, as represented by the S&P/ASX 300 Accumulation Index, is highly concentrated and narrow. Technically, a company is assigned the large cap moniker if it falls within the S&P/ASX 50, with those companies falling between the S&P/ASX 50 and S&P/ASX 100 assigned to the mid cap category. All stocks below the top 100 are considered small capitalisation stocks.

As at 28 February 2019, the Financials and Resources sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 32% of the index, and Materials approximately 19%. The split between Industrials and Resources stocks was approximately 80%/20%. The top 10 stocks represented approximately 42% of the weighting of the Index, and the top 20 stocks represented over 57% of the Index.

In comparison to the S&P/ASX 300 Index, the S&P/ASX Emerging Companies Accumulation Index has a much lower weighting to the Financials sector and is represented by a larger weighting to the Resources sector, which reflects the importance of resources related industries to the micro-cap sector. A significant proportion of these resource companies are classified as "exploration" companies, and in many cases are not cash flow positive, can be highly volatile and their fortune can be linked to whether (or not) a resource body is discovered.

The Small and Micro Cap sector typically have a market capitalisation of less than $500 million and the sector is comprised of approximately 1,600 listed companies with a combined total value of circa $110 billion. Over the longer-term, active management in this sector has historically demonstrated an ability to significantly outperform a passive index given it is an "under researched" segment of the market.

PORTFOLIO APPLICATIONS

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer-term with some income. However, this higher growth is also often associated with higher volatility. Therefore, it is recommended that investors adopt a longer time frame when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market is relatively concentrated, with the Materials and Financials sectors dominating the market; the market also only represents approximately 1% of global equity markets (in terms of market capitalisation). Therefore, to mitigate this concentration risk it is highly recommended that investors diversify their investments across asset classes, both domestically and globally.

The Company provides investors with a benchmark unaware exposure to Australian equities. The Company is managed with an absolute return approach which allows for significant levels of cash to be held when investment opportunities are not apparent. While the Company has the ability to take short positions, Zenith expects that in practice, use of short selling in the portfolio will be uncommon. It should be noted that any short selling must be cash backed and portfolio exposure limited to 100%.

In addition, the Company can invest across the full market capitalisation spectrum. However, the Company will typically have a bias toward small/mid cap stocks as this segment of the market tends to be less efficient and under researched. Given the exposure to small/mid cap stocks, Zenith believes investors should be prepared to invest with an investment time horizon of seven or more years to maximise their potential for optimal results.

The Company may also suit investors seeking a consistent income stream, with the Board committed to paying an increasing stream of fully franked dividends to shareholders. A dividend reinvestment plan also continues to operate at 2.5% discount.

Investors need to be aware that as a LIC, the shares will have their own trading patterns and may trade away from their NTA which at times may impact the effectiveness of Wilson AM's investment process and/or expected risk-return profile.

One of the benefits of the LIC structure is that the Company, unlike in an unlisted managed fund, does not have to sell holdings to fund redemptions. Zenith believes this feature is a key competitive advantage for the Company given its bias toward small and mid cap stocks. That is, the Company will not have to sell positions at inopportune times to meet redemption requests.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the “Australian Equities/Listed Investment Entities” sector are exposed to the following broad risks:

MARKET & ECONOMIC RISK: As is the case with all long only Australian Share funds, the biggest risk to performance is a sustained downturn across the Australian share market. In addition, changes in economic, social, technological or political conditions, as well as market sentiment could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a LIC's/LITs prescribed investment time frame.

SPECIFIC SECURITY RISK: This is the risk associated with an individual security. The price of shares in a company may be affected by unexpected changes in that company’s operations such as changes in management or the loss of a significant customer.

LIQUIDITY RISK: This is the risk that a security or asset cannot be traded quickly enough, due to insufficient trading volumes in the market. When trading volumes are low, sellers can significantly impact the price of a security when attempting to quickly exit a material position.

STYLE BIAS RISK: Australian equity managers will either employ a Growth, Value or Neutral (combination of Value & Growth) styled approach to investing. Each style is conducive to certain market conditions, i.e. Growth should outperform Value in an upward trending market and vice versa in a downward trending market. As with Market Risk, investors should adhere to the LIC's/LITs investment time frame to avoid short-term market movements and style impact.

CAPACITY RISK: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager, as high FUM has the potential to hamper the manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

PREMIUM/DISCOUNT TO NET ASSETS: Investors need to be aware that as a LIC/LIT, shares/units will have their own trading patterns and may trade away from their net asset value. This may impact the effectiveness of the investment process and/or expected risk-return profile in the hands of the investor.

COMPANY RISKS

Zenith has identified the following key risks of the Company. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

KEY PERSON RISK: Zenith believes that Geoff Wilson is integral to the success of the Company and the firm. While the business has increased its team depth over recent years, the departure of Wilson or other key individuals would trigger a reassessment of our rating.

CAPACITY RISK: Excessive levels of funds under management (FUM) can inhibit a manager's ability to trade portfolio positions effectively, and therefore limit outperformance potential. Wilson AM has stated that the strategy is nearing its capacity limits and as such, will not seek to raise further capital. Zenith believes Wilson AM has taken a prudent approach in managing capacity, however, we will continue to monitor the Fund's performance and FUM levels for signs of impediments.

CONFLICT RISK: Many LICs are exposed to conflict risk because there is a direct link typically between the Company and the Manager. In the case of the Company, this is present with Geoff Wilson who is the Chairman and also the sole director and "beneficial" owner of Wilson AM.

SHORT SELLING RISK: The Company may be engaged in short selling. Short selling involves borrowing and selling securities the Company does not own. The action of stock borrow creates an obligation to redeliver the securities borrowed (or their equivalent) on an agreed date, or if circumstances change on demand from the stock lender. Short sale positions create an unlimited risk for the portfolio if the stock price of the security rises and the Company is unable to buy the securities back in the marketplace. The act of buying securities in a rising market can add to the positive price momentum and add to the losses in the Company. Zenith notes that any shorts by the Company must be cash backed, which reduces these risks.

DERIVATIVE RISK: There are multiple risks associated with the use of derivatives; for example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations (relevant when purchasing an option) or a particular derivative may be difficult or costly to trade. These risks are materially mitigated through management only using exchange traded options and the portfolio's limited overall exposure.

QUALITATIVE DUE DILIGENCE

ORGANISATION

WAM Capital Limited

The Company has no paid employees.

The Board consists of the following individuals:

- Geoff Wilson, Executive Chairman, appointed March 1999
- Kate Thorley, Executive Director, appointed August 2016
- Chris Stott, Non-Executive Director, appointed May 2015
- James Chirnside, Non-Executive Director, appointed February 2003

- Lindsay Mann, Non-Executive Director, appointed December 2012
- Phillipa Ryan, Non-Executive Director, appointed April 2018

Zenith notes that Matthew Kidman resigned from his role as a Non-Executive Director of the Company in April 2018. Replacing Kidman on the Board is Phillipa Ryan. Zenith recognises that a modest amount of turnover in company boards tends to be healthy as new directors bring fresh perspectives and new skills, and new directors can show a propensity to challenge on key issues more than long serving incumbents. However, there is a balance to Board turnover which also needs to be considered.

Zenith notes that the Company does not currently fully comply with all ASX corporate governance principles. In particular:

- The Chairman is not an independent director
- It does not have a Nomination Committee

Zenith also notes that each of the Executive Directors is remunerated, albeit a nominal sum, of $10,000 p.a. each. Zenith believes the practice of remunerating Board Directors who are employees of the investment manager is not reflective of best practice amongst LICs.

Wilson Asset Management

Wilson Asset Management International (Wilson AM) is an independently owned boutique funds management organisation established in 1997 by Geoff Wilson. Wilson AM comprises two investment managers, MAM Pty Limited (MAM) and Wilson Asset Management (International) Pty Ltd (WAMI). Management of the Wilson AM listed vehicles is as follows.

MAM Pty Limited:

- WAM Research Limited (WAX)
- WAM Active Limited (WAA)
- WAM Leaders Limited (WLE)
- WAM Microcap Limited (WMI)

Wilson Asset Management (International) Pty Ltd:

- WAM Capital Limited (WAM)
- WAM Global Limited (WGB)

Zenith notes that Geoff Wilson has 100% of the equity ownership in Wilson AM. As such, we would prefer to see a greater level of equity ownership distributed amongst investment staff, which would further align the interest of the team with investors.

As at 31 March 2019, Wilson AM and affiliates managed approximately $A 3 billion in FUM. As at the same date, the Company had a market capitalisation of $A 1.6 billion.

INVESTMENT PERSONNEL

Name	Title	Tenure
Geoff Wilson	Chairman, CIO	22 Yr(s)
Martin Hickson	Lead Portfolio Manager	9 Yr(s)
Oscar Oberg	Lead Portfolio Manager	2 Yr(s)

The investment team of 11 is led by Chairman Geoff Wilson who established Wilson Asset Management in 1997. Wilson has in excess of 37 years' experience in equity markets and in managing equity portfolios. Wilson has oversight on all the Wilson AM LICs, Zenith regards Wilson highly for his investment acumen and long track record in the LIC market.

On 29 October 2018, Wilson Asset Management announced the intention of Chief Investment Officer, Chris Stott, to retire, effective 31 December 2018. Stott will remain as a Director of two of the Wilson AM LICs (WAM Capital Limited and WAM Microcap Limited). As a result, Geoff Wilson has moved to occupy the dual roles of Chairman and CIO. While Stott acted as a lead Portfolio Manager, Wilson AMs team based approach means that the existing Lead Portfolio Managers Martin Hickson and Oscar Oberg continue to manage the Company.

Although Zenith believes Wilson AM's strategies will continue to be managed by capable investors, we believe that Stott's departure reduces the experience and depth of the investment team. We also note that whilst the team operates under a team-based approach, Stott was an integral part of the stock selection and portfolio construction process over many years across multiple Wilson AM strategies. Given the change, we believe a period of consolidation is required.

Zenith notes that Stott had progressively increased his role across the Wilson AM business over the years which has worked to reduce keyman risk in Geoff Wilson. With Stott's departure, Zenith believes that succession planning within the firm to reduce keyman risk regarding Wilson is imperative.

As Wilson AM has increased the number of LICs being managed, the team has progressively expanded. While members of the investment team tend to be generalists, the team is largely split along market capitalisation lines and each devotes varying proportions of their time to each LIC managed by Wilson AM.

Geoff Wilson dedicates between 10% to 30% of his time to the Company portfolio, however, Hickson and Oberg have the primary portfolio management function and are in turn supported by Portfolio Manager Tobias Yao and Investment Analyst Sam Koch, who also dedicates time to the Company's portfolio.

Other members of the team also dedicate such time as required. While Haupt and Ayoub act as dedicated portfolio managers for WLE, Zenith still expects them to be contributors to Wilson AM's other strategies. Zenith notes that management has hired a dedicated trader to the business, which Zenith views positively as this allows the investment team to focus more fully on research and portfolio construction.

Whilst an additional five analysts and portfolio managers have been added to the team in the last three years, it should be recognised that Wilson AM has also added three new LICs to the management line-up in that timeframe. We are also cognisant that the team as a whole cover a large universe of stocks across the market capitalisation spectrum and as such we remain wary of capacity limits on the research side, particularly given the loss of Stott who was the most senior individual behind Wilson.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Company's investment objective is to deliver investors a rising stream of fully franked dividends, provide capital growth and preserve capital. Zenith would prefer to see the delineation of a specific outperformance target, as opposed to a descriptive, qualitative objective.

Wilson AM's overall investment philosophy is to focus on investing in growth companies with an emphasis on under researched and undervalued stocks. These companies tend to be small to mid-cap sized listed industrial companies. Wilson AM's style is best described as fundamentally driven and absolute return focused. In instances where investment opportunities cannot be found, significant levels of cash will be held.

The Company's investment strategy can be distilled into two independent sub-strategies: research-driven and market-driven. The sub-strategies are combined at approximately equal weights.

The research-driven strategy aims to identify micro and macroeconomic trends and under researched opportunities. Particular attention is placed on modelling a company's free cash flow and understanding its return on equity. Other important aspects of note are: the ability of management, earnings growth potential, valuation and industry position.

The market-driven strategy targets relatively short-term arbitrage and mispricings which include: IPOs, placements, block trades, rights issues, corporate transactions, arbitrage opportunities (i.e. LICs relative value discounts), trading market themes and trends.

One of the key beliefs within Wilson AM from a macroeconomic, structural perspective is that listed investment companies (LICs) provide a distinct advantage to unlisted funds which are open ended. Given LICs manage a captured pool of assets, fund managers are not hindered by inflows and outflows, which can have a significant impact on performance. Although Zenith believes LICs have this advantage over unlisted peers, we note that the effectiveness of the strategy may be altered by the Company's own trading movements. That is, investors may not be able to benefit from the strategy's capital preservation focus as the performance of the Company is driven by market sentiment.

In mid-2017, Wilson AM put in place formal market capitalisation guidelines for each strategy it manages. These guidelines create greater delineation across the various strategies to limit crossover in holdings, particularly at the smaller end of the market capitalisation spectrum. Although the Company has traditionally held a bias towards smaller companies, Zenith notes that the strategy has not historically invested in companies with a market capitalisation less than $A 150 million. With the implementation of these new guidelines, Zenith has a greater comfort that there will be less competition for trading positions from other Wilson AM vehicles.

SECURITY SELECTION

Wilson AM adopts two independent investment processes to achieve its investment objectives and to identify investment opportunities.

Research-driven Process

The team considers relevant micro and macroeconomic trends and targeting under-researched companies. Once an attractive opportunity has been identified, the team will undertake extensive financial analysis and meet with the company. The team typically conducts over 1,500 company visits a year with multiple members of the team involved.

The financial analysis includes entering all historical, publicly available financial information (P&L, Balance Sheet) into its own proprietary financial model. Two-year forecast data is also input into the financial model.

Alongside financial analysis, the team will conduct company meetings with the aim of gathering information required to form a view on management, the ability of the company to grow within an industry and the industry position within the broader economy.

The team also conducts industry level analysis. Key factors assessed include market niche, management skills, technology, marketing, earning prospects and product demand.

The output of the team's research and analysis is a one page company summary sheet, which includes:

- A valuation target
- Recommendation
- Upside to valuation (%)
- Cash backing per share (one of the measures of downside potential)
- Broker consensus forecasts (used as an overlay only)
- Various stability, cash flow, working capital and profitability ratios

In addition, a "WAM rating score" is produced from each company, which is an aggregation of the following four variables - two qualitative and two quantitative.

- *Management:* score out of 10
- Industry Position: score out of 10
- *Earnings per share (EPS) Growth*: average % EPS growth next two years (for example, 31% in year 1 and 7% in year 2 will result in a score of 19)
- *EPS/Price Earnings (PE)*: EPS Growth Score/average PE next two years

A WAM Rating Score above 50 sees the stock progress onto a potential investment list. A WAM Rating Score below 50 triggers an "Under Review" rating. There are approximately 50 to 100 stocks at any one time with a WAM Rating score.

For a company to be considered for portfolio inclusion, the team also requires the identification of a catalyst or an event which will alter the market's perception and trigger a valuation change. Catalysts typically include: management changes, acquisitions and earnings surprises. Zenith believes the identification of a catalyst is an attractive feature of the process as it ensures the efficient deployment of capital.

Zenith believes the team's research-driven approach is sufficiently robust in order to deliver upon investment objectives. In addition, we note that the process has produced highly impressive long-term results.

Market-driven Process

This strategy attempts to take advantage of relatively short-term arbitrages and mispricings in the market. This process is active and can result in a high turnover of trade ideas. The types of trades that might form part of this process include:

- Initial public offerings (IPO)
- Capital raisings
- Block trades

- Oversold positions
- Takeovers
- Valuation arbitrage (i.e. stocks or LICs trading at discounts to net tangible assets)
- Earnings momentum/surprise
- Market themes and trends

Once an opportunity is identified, the team will assess the risk and return characteristics of the trade. The team will also evaluate whether the trade has sufficient liquidity for successful implementation. Similar to the research-driven approach, a catalyst is needed prior to portfolio inclusion.

Zenith believes the market-driven process is a point of differentiation relative to fundamentally driven approaches. As such, we believe both approaches complement each other, producing an attractive risk/return profile when combined.

PORTFOLIO CONSTRUCTION

The research-driven and market-driven strategies are combined at roughly equal weights. For both strategies, once a catalyst is identified, a position or trade can be initiated. To size positions, considerations are made with regards to the overall risk/return profile of the existing portfolio

The portfolio will rarely hold resource companies due to their often unpredictability and volatility and will comprise predominantly undervalued, small/mid-cap industrial companies. For the research-driven component of the portfolio, companies that can grow in excess of the market (i.e. 15% p.a to 20% p.a. and trade on a P/E of 10 times or less) are preferred.

The Company is typically well diversified, holding 50 to 120 stocks (normally at the higher end of this range). Portfolio positions will typically be initiated at a maximum of 3% and spread across multiple industry sectors.

The Company will hold significant levels of cash if investment opportunities cannot be found. Cash is held in the form of 30 day to 180-day term deposits with the major local banks on various staggered maturities to allow for liquidity. Cash holdings for the Company have averaged approximately 34% since inception. Although Zenith prefers actively managed funds to be fully invested, we note that the ability to hold high cash exposures is consistent with the Company's capital preservation investment objective.

The Company generally does not use leverage nor futures, however, options may be used occasionally. Option positions have always been less than 5% of the portfolio and never held without owning the underlying company.

In addition, the Company is able to short sell securities, however, the team have used this ability sparingly, with short-sold positions never being more than a 10% allocation since inception. Short sold positions are subject to a 10% stop loss limit and must be cash backed, with gross exposure limited to 100%.

Positions may be sold for one of the following reasons:

- The position has fulfilled expectations
- The catalyst which triggered an investment no longer remains true
- The company is trading at or above the re-assessed fair value
- 10% stop loss limit is breached

The Company's portfolio turnover is expected to be between 120% p.a. to 300% p.a., which Zenith considers to be high relative to actively managed Australian equities peers. In line with expectations, the portfolio turnover generated by the research-driven strategy is significantly lower than the market-driven strategy. The portfolio turnover of the research-driven strategy is typically between 40% p.a. to 90% p.a., which is consistent with the team's two year investment time frame. Conversely, the market-driven strategy produces high levels of portfolio turnover between 200% p.a. to 300% p.a.

Overall, Zenith believes the portfolio construction approach allows for the team's best ideas to be represented in the portfolio.

RISK MANAGEMENT

Portfolio Constraints	Description
Single Stock Exposure (%)	No restriction, but typically <5% at initiation
Expected Number of Securities	Typically 50 to 120
Cash (%)	max.100%
Leverage	N/A
ESG Constraints - Excluded Sectors	N/A

Consistent with the Company's flexible investment philosophy and approach, portfolio constraints are not prescriptive. Given the broader portfolio constraints, investors should note that the Company may be significantly overweight certain sectors at any point in the market cycle.

Zenith believes risk management is embedded in the investment process, with the Company seeking to understand the risk and return characteristics of each investment. In addition, we believe the requirement of a catalyst before portfolio inclusion reduces the uncertainty of an investment.

The Company has a particular emphasis on capital preservation, with the flexibility to allocate up to 100% in cash when there is a lack of investment opportunities. Zenith believes the wide cash constraint can potentially add value in overvalued equity markets and/or falling market conditions.

Zenith is satisfied that the Fund's risk management processes are embedded throughout the entire investment process and that the liquidity of holdings is adequately monitored. However, given the Company's broad mandate, Zenith believes investors should be aware that there is a significant reliance on the team's skill and judgement in managing risks.

Environmental, Social & Governance (ESG)

While the Company does not have any specific ESG investment exclusions in the traditional sense, it may utilise ESG factors as part of the own investment processes. Overall, Zenith believes the consideration of ESG factors is less than peers.

ADMINISTRATION AND OPERATIONS

Service Providers

The Company uses the following service providers:

Stock Lending

While the majority of long/short vehicles reviewed by Zenith utilise a Prime Broker to provide access to short positions, Wilson AM has elected to enter into Securities Lending Agreements with two lenders. Whilst using a lender involves slightly more administrative work (i.e. posting collateral to the stock lender manually when trading), Wilson AM prefers this approach as it reduces the counterparty risk associated with posting fund assets with a Prime Broker as collateral at all times.

While most peers also use Prime Brokers for access to stock, as well as other purposes such as special situations deal flow, Zenith does not envisage Wilson AM having difficulties in this regard given its scale. In addition, Zenith notes that Wilson AM should have the capacity to negotiate fair borrowing arrangements and fees.

Custodian

RBC Investor and Treasury Services

Auditor

Pitcher Partners

Legal

Kardos Scanlan

Registry

Boardroom

Transparency

Wilson AM has provided full transparency of their portfolio in support of Zenith's due diligence process. Zenith notes however that Wilson AM does not provide shareholders with transparency on portfolio returns after management fees. Zenith believes that this level of disclosure is out of keeping with contemporary investment managers and is below best practice.

INVESTMENT FEES

LICs can broadly be categorised into two groups from a management and fee standpoint on the basis of whether they are internally or externally managed (operating under an individually managed account). Typically, internally managed LICs have lower proportional management costs due to a larger asset pool. Externally managed LICs tend to have management costs more in-line with unlisted managed funds.

Wilson AM is entitled to a management cost of 1.1% p.a. inclusive of GST (1% p.a. exclusive of GST), which is calculated and paid monthly in arrears.

Where the Portfolio has increased in value over a 12 month performance calculation period ending 30 June, Wilson AM will also be entitled to a performance fee of 22% inclusive of GST (20% exclusive of GST) of:

- Where the level of the All Ordinaries Accumulation Index has increased over that period, the amount by which the value of the Portfolio exceeds this increase; or
- Where the level of the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the value of the Portfolio.

No performance fee will be payable to Wilson AM in respect of any performance period where the Portfolio has decreased in value over that period. The Company will also reimburse Wilson AM expenses in relation to management of the portfolio or acquisition, disposal or maintenance of any investment.

Zenith notes that Wilson AM does not have to recoup any prior underperformance in order to be paid a performance fee, which we believe is a major flaw. Zenith believes the fee structure is not in accordance with industry best practice and would prefer to see a requirement whereby all prior underperformance is needed to be recouped in order for a performance fee to be paid. We believe this would ensure greater clarity and certainty of a fair outcome for shareholders.

The Company's management cost is higher than externally managed peers. However, Zenith believes that the application of a performance fee is relatively uncommon for a equities strategy with a long bias.

Investment Fees	
Product	WAM Capital Limited
Asset Class	Australian Equities
Sub-Asset Class	Aust. Equities - Small Cap
Management Structure	Externally Managed
Management Fee	1.10%
Performance Fee	22% of excess return over the All Ordinaries Index subject to a positive portfolio return or if the Index has declined, the amount of the increase in portfolio value.

Annual Management Fee Comparision		% p.a.
Australian Equities	Peers - LICs/LITs (Internally Managed) [1]	N/A
	Peers - LICs/LITs (Externally Managed)	1.05%

[1] *Internally Managed LICs/LITs data use published Management Cost as at 31 December 2017 and are ex-GST. All other fees are inclusive of GST, less Reduced Input Tax Credits where available. Source: ASX, Zenith.*

PERFORMANCE ANALYSIS

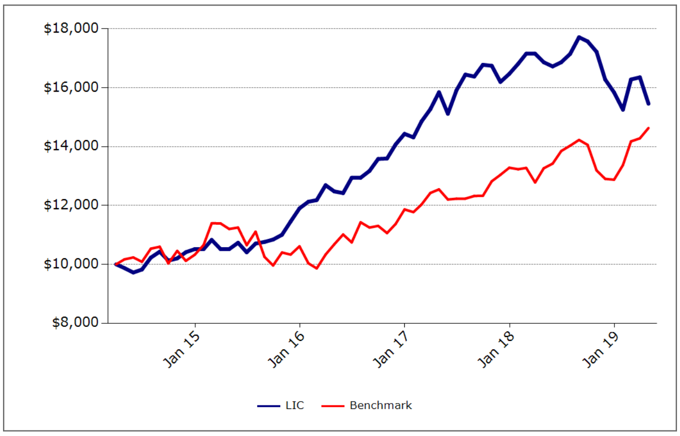
Report data: 30 Apr 2019, product inception: Aug 1999

Monthly Performance History (%, net of fees)

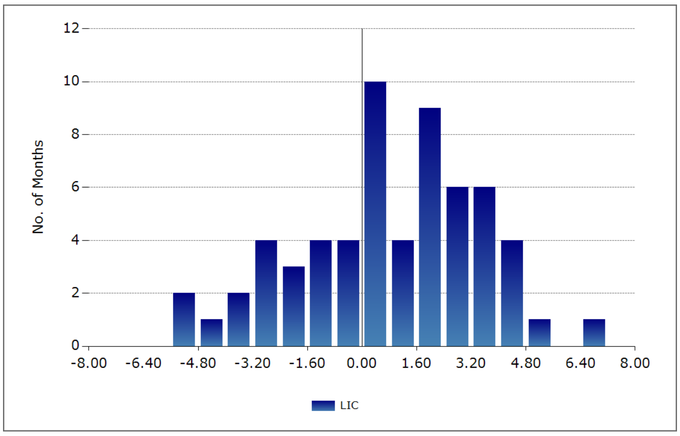
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	LIC YTD	BENCHMARK YTD
2019	-3.70	6.73	0.45	-5.49									-2.43	13.64
2018	2.08	2.04	0.00	-1.70	-0.84	0.85	1.68	3.31	-0.80	-2.02	-5.45	-2.70	-3.83	-3.07
2017	-0.83	3.77	2.82	3.77	-4.62	5.29	3.35	-0.40	2.44	-0.20	-3.28	1.69	14.12	11.95
2016	1.89	0.46	4.15	-1.66	-0.47	4.21	0.00	1.79	3.08	0.11	3.52	2.55	21.27	11.80
2015	0.00	2.99	-2.90	0.00	2.06	-3.03	2.86	0.51	0.76	1.50	4.08	3.92	13.18	2.79

Benchmark: S&P/ASX 300 (Accum)

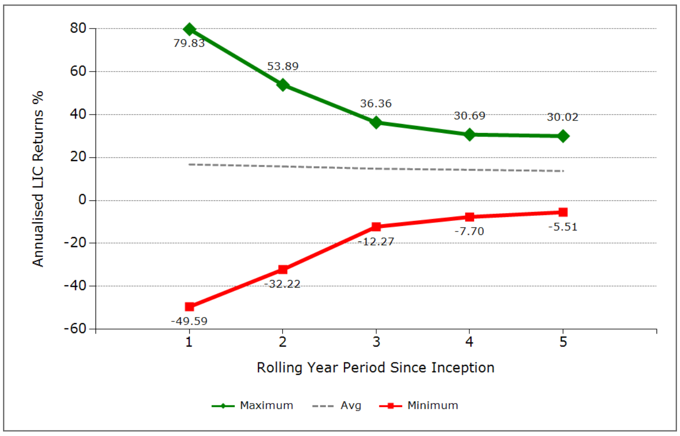
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	13.24	9.38	7.40	-8.35
Benchmark (% p.a.)	8.40	7.55	11.07	10.31
Median (% p.a.)	7.85	3.81	4.98	-3.98
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	1 / 12	1 / 33	13 / 45	34 / 50
Quartile	1st	1st	2nd	3rd
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
LIC (% p.a.)	16.36	9.21	10.16	11.87
Benchmark (% p.a.)	12.41	11.06	9.19	10.40
Median (% p.a.)	15.66	11.36	11.47	10.90
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
LIC (% p.a.)	8.51	4.91	5.57	7.04
Benchmark (% p.a.)	7.33	6.23	4.62	6.02
Median (% p.a.)	8.74	6.31	5.90	6.93
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - LIC	0.54	0.79	0.54	-0.87
Sortino Ratio - LIC	1.04	1.48	0.99	-1.47

Readers should note that unless otherwise indicated, all performance, consistency and risk/return data is referenced to the Zenith assigned benchmark (as represented by Benchmark 1 in the above table) with the LIC returns representing those attributable to shareholders (i.e. share price + dividends).

Zenith typically includes the ongoing net returns of a LIC's investment portfolio as we believe this is the best measure of the investment manager's skill. Zenith notes however that Wilson AM has declined to provide this information.

All commentary below is as at 31 March 2019.

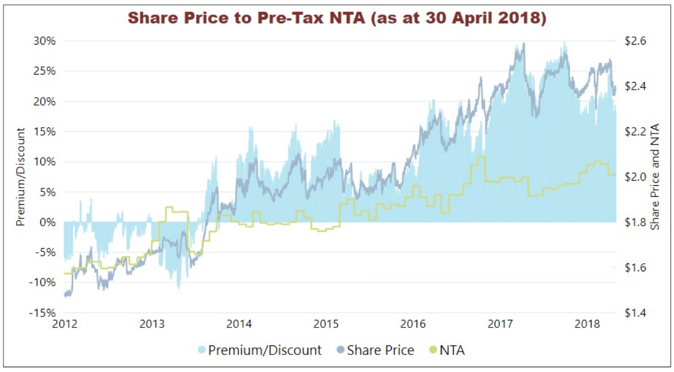
The Company's investment objective is to deliver a growing dividend income stream and preserve capital over the short and long-term. Although the Company is benchmark unaware, the Company utilises the Australian All Ordinaries Index as a performance benchmark.

The Company's portfolio has failed to outperform Zenith's sector benchmark over one and three years on a gross of fees basis, however, long term excess returns have been positive (five years and since inception).

Zenith believes that transparency of performance reporting is essential for listed investments. Zenith notes that the Company typically reports portfolio performance on a before fees basis rather than after. Zenith regards this as materially below best practice and out of keeping with contemporary LICs/LITs. Accordingly, we view it as a detractor from the overall attractiveness of the Company.

Share Price vs. NTA

The following chart shows the Company's premium/discount since inception.



WARNING: Zenith ratings applied to LICs do not explicitly take into account share prices vs. NTA and do not represent a buy/sell recommendation based on a LICs valuation. Potential investors should make their own determination of the appropriateness of prevailing premiums or discounts to NTA when acquiring or disposing of a LIC.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	4.84	1.83	-3.67	-18.67
% Monthly Excess (All Mkts)	49.37	51.67	50.00	41.67
% Monthly Excess (Up Mkts)	39.60	36.84	44.00	37.50
% Monthly Excess (Down Mkts)	65.91	77.27	63.64	50.00
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	0.61	0.23	0.24	0.50
R-Squared	0.21	0.08	0.05	0.19
Tracking Error (% p.a.)	15.32	12.24	12.16	11.85
Correlation	0.46	0.28	0.21	0.44
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	0.32	0.15	-0.30	-1.58

All commentary below is at 31 March 2019.

It is important to note that the Relative Performance Analysis shown above combines the Company's share price returns with dividends to give the reader detail on the investor experience.

Zenith seeks to identify funds that can achieve an outperformance ratio above 50% of months in all market conditions as we believe this represents a persistence of manager skill.

The Company portfolio has traditionally evidenced strong levels of protection in down markets, due at least in part to the tenancy to hold high levels of cash. While Zenith generally prefers investment managers be fully invested, these results are coupled with historically strong levels of benchmark outperformance.

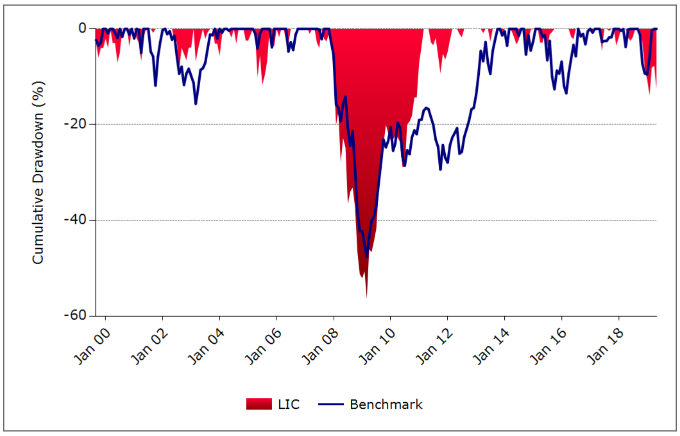
Performance of the Company's total returns has also tended to deliver stronger results in down markets, albeit to a lesser extent.

DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

Drawdown Analysis	LIC	Benchmark
Max Drawdown (%)	-56.38	-47.55
Months in Max Drawdown	19	16
Months to Recover	24	56

Worst Drawdowns	LIC	Benchmark
1	-56.38	-47.55
2	-13.90	-15.65
3	-11.70	-13.46
4	-9.32	-11.85
5	-8.50	-9.51



All commentary below is at 31 March 2019.

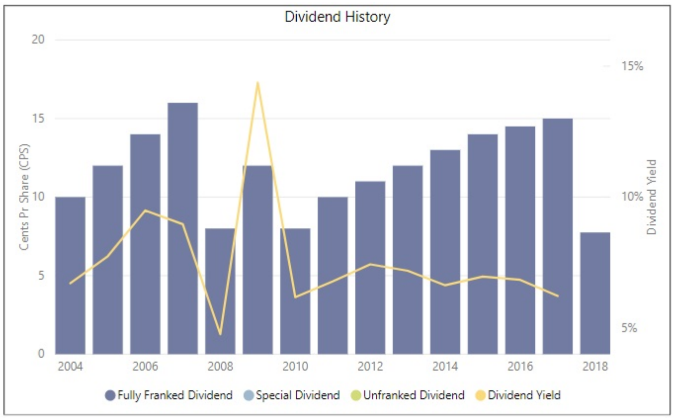
Consistent with the Company's capital preservation focus, drawdowns in the portfolio have generally been smaller than that of the benchmark. Zenith expects stronger drawdown protection during periods of significant market corrections. Drowndowns experienced by the Company however have tended to be higher than the portfolio and in some cases that of the benchmark, due to secondary market trading.

Investors should be aware that accessing a strategy via a LIC will mean that the effectiveness of the strategy may be significantly diminished due to the Company's own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of the Company is driven by market sentiment.

Dividend Policy

The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices. Dividends will be made with consideration to cash flow, cash holdings and available franking credits.

The Company has a dividend reinvestment plan (DRP) in place which operates at a 2.5% discount calculated on the Volume Weighted Average Price (VWAP) on the record date and the three days preceding that date.



REPORT CERTIFICATION

Date of issue: 23 May 2019

Role	Analyst	Title
Author	Dugald Higgins	Head of Property & Listed Strategies
Sector Lead	Dugald Higgins	Head of Property & Listed Strategies
Authoriser	Bronwen Moncrieff	Head of Research

RATING HISTORY

As At	Rating
23 May 2019	Recommended
2 Nov 2018	Recommended
30 Oct 2018	Under Review
5 Jun 2018	Highly Recommended
8 Jun 2017	Highly Recommended
6 Jun 2016	Highly Recommended
20 Mar 2015	Recommended

Last 5 years only displayed. Longer histories available on request.

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Zenith has charged Wilson Asset Management a fee to produce this report.