

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

# WAM Active Limited (WAA)



www.wamfunds.com.au

## Company Overview

WAA is an actively managed absolute return fund that was listed in January 2008. The portfolio is managed by Wilson Asset Management. The manager will invest predominantly in ASX-listed securities and will hold cash where appropriate investment opportunities cannot be identified.

## Investment Objective

The company has an absolute return focus and therefore aims to generate positive returns in both rising and falling markets. The manager seeks to deliver shareholders with a steady stream of fully franked dividends, and preserve the company's capital.

## Style and Process

WAA invests predominantly in ASX-listed securities and cash. Given the objective of the company, the manager has the ability to short sell securities. The manager uses a 'market driven' approach to investing, in which it aims to take advantage of short-term relative arbitrage and mispricing in the market. The manager participates in IPO's, rights issues, placements, schemes of arrangement and looks for arbitrage opportunities and discount to asset plays, along with other market events viewed as favorably priced. The manager utilises stop-losses on all trading positions of 10%. The portfolio is actively managed and therefore portfolio turnover is high.

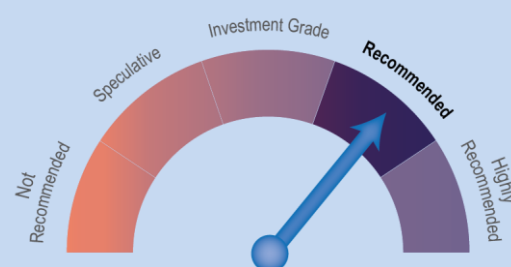
## Portfolio Characteristics

The portfolio may hold between 10 and 100 investments and therefore the level of concentration will vary. There are no restrictions regarding the minimum or maximum investment in any individual stock or sector and as such the manager may take large positions in an individual security. The manager may hold up to 100% cash if attractive investment opportunities cannot be identified. At September quarter end, the manager had significant cash holdings of 64%.

## Independent Investment Research Comments

The absolute return nature of WAA means that it does not intend to mimic the returns of the market but generate positive returns despite the direction of the market, as is illustrated by the high tracking error. The company's strategy incorporates the use of short selling to generate returns. As such, investors should be comfortable with the use of these instruments and strategies before investing in the company. The portfolio holds high levels of cash, which will likely result in the outperformance of the portfolio when the market generate large negative returns, such as in the September quarter. The market declined sharply over the September quarter, with the benchmark index (All Ords Accumulation index) falling 11.3%. WAA's portfolio (pre-tax NTA plus dividends) outperformed the benchmark index, declining by just 1.3%, taking the 12-month outperformance to 10.3%. We note the outperformance is due to the large allocation to cash.

### Rating



### LMI TYPE

Listed investment company

### INVESTMENT AREA

Australia

### INVESTMENT ASSETS

Listed companies and other

### INVESTMENT SECTORS

Diversified

### Key Investment Information

Price as at 23 November 2011	\$1.00
Market cap (\$M)	16.2
Shares on issue (M)	16.2
Shares traded (\$M p.a)	3.5
12-month L/H (\$)	0.97/1.12
Listing date	January 2008
<b>Fees</b>	
Management Fee (%)	1.00
Performance incentives (%)	20.0*

\*Outperformance over the high watermark. Paid annually.

### Pre-tax NTA Performance Analytics (including dividends)

	All OrdsAcc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	10.31	10.13
TE (%)	8.57	10.27

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield	(%)
FY09	0.00ff
FY10	5.02ff
FY11	6.83ff

Substantial Shareholders	(%)
Interest Associated with Geoff Wilson	13.1
Huntingfield Investments	10.2
As at 30 September 2011	

## Board of Directors

Geoffrey Wilson	Chairman (Executive)
Matthew Kidman	Director (Non-Executive)
John Abernethy	Director (Non-Executive)
Ronald J. Walker	Director (Non-Executive)
Kate Thorley	Company Secretary

## Other Data

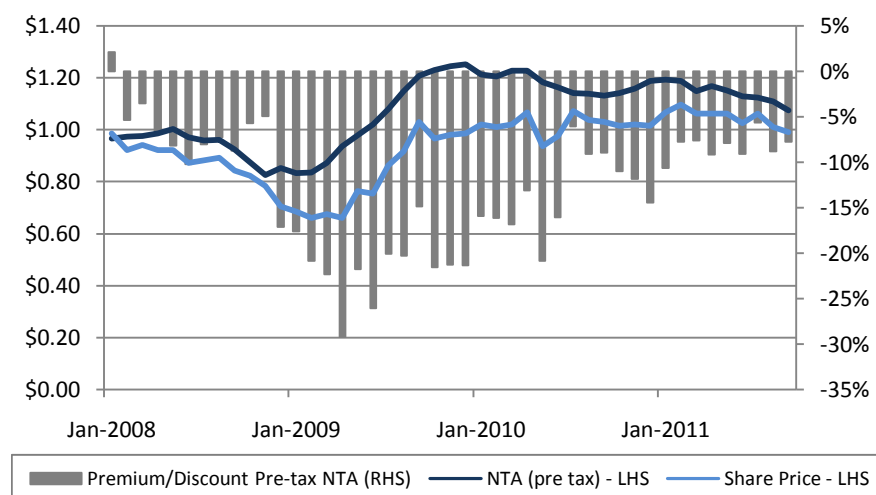
- ◆ **Options** – None
- ◆ **Dividend policy** – The Board is committed to paying an increasing stream of fully franked dividends, provided the company has sufficient franking credits, and it is within prudent business practices.
- ◆ **Capital management policy** – The Board manages the company's capital by regularly reviewing the most efficient manner by which the company employs its capital. Management believes in preservation of shareholder value. This will be achieved through the management of the level of distributions to shareholders, share and option issues as well as share buy-backs.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes

## WAA's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
SGI	6.5	na
CNA	4.6	na
DKN	3.2	na
CCQ	2.9	na
TLS	1.6	3.4
SOE	1.6	na
SYM	1.4	na
SDG	1.3	0.0
MSF	1.2	0.0
CYG	1.1	na
	<b>25.4</b>	<b>3.4</b>

Source all figures: WAA/Independent Investment Research/IRESS.  
All data as at 30 September 2011 unless otherwise specified

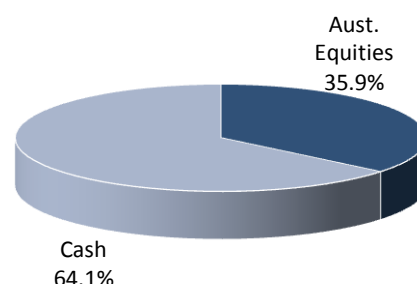
## NTA & Share Price Performance



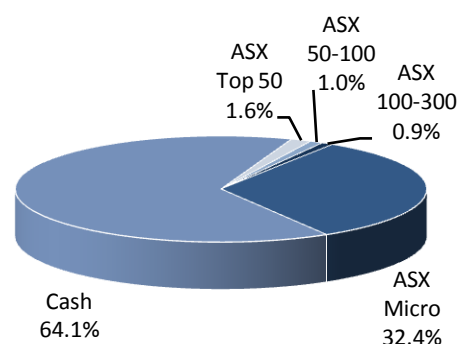
## Sector Breakdown

Sector	(%)
Energy	13.3
Materials	4.1
Industrials	6.1
Consumer Discretionary	5.8
Consumer Staples	3.3
Healthcare	1.2
Financials (ex Property)	59.5
Property	0.0
Information Technology	2.2
Telecommunication Services	4.5
Utilities	0.0

## Asset Weighting



## Size Weighting



## Key Positive Contributors

- ◆ Contango Capital Partners Limited
- ◆ Signature Capital Investments Limited
- ◆ DKN Financial Group

## Key Negative Contributors

- ◆ MSF Sugar Limited
- ◆ UXC Limited
- ◆ RHG Limited

# WAM Capital Limited (WAM)



www.wamfunds.com.au

## Company Overview

WAM was listed in August 1999 and is managed by Wilson Asset Management. WAM provides an actively managed fund that focuses on investing in a diversified portfolio of growth companies, primarily small-to-medium cap securities.

## Investment Objective

The investment objectives of the fund are to provide a growing stream of fully franked dividends, provide capital growth and preserve capital.

## Style and Process

WAM predominantly invests in a diversified portfolio of small-to-mid cap stocks. The manager uses a combination of two approaches to select investments: (1) Research driven approach; and (2) Market driven approach. The research driven approach involves making investment decisions based on extensive research on the security. The manager looks for management strength, earnings growth potential, low earnings multiple, advantageous industry position, generation of free cash flow, appropriate return on equity and a catalyst for share price growth. The manager has over 700 meetings with management each year. The market driven approach involves participating in IPO's, placements and takeover arbitrages. The manager aims to take advantage of short-term relative arbitrage opportunities and mispricing in the market.

## Portfolio Characteristics

WAM has a well-diversified portfolio, with only one position being greater than 4% (RKN). The portfolio focuses on small-to-mid cap stocks with the majority of investments being in companies outside the S&P/ASX 100. Given the company focuses on industrial stocks, the portfolio has very little exposure to the resource sector. The manager defaults to cash if acceptable investments cannot be identified. As such, prospective investors need to be aware that the portfolio may have large cash allocations. At September end, 49% of the portfolio was allocated to cash.

## Independent Investment Research Comments

WAM predominantly invests in small-to-mid cap stocks. The manager primarily maintains small positions in securities to minimise risk, however, there are no size restrictions on investments. We note that smaller cap stocks tend to entail a greater level of risk; however, the upside potential can be considerable. The manager has the ability to short sell stocks. We note, this has never been more than 10% of the portfolio. WAM outperformed the benchmark index by 8.1% over the September quarter, with the portfolio (pre-tax NTA plus dividends) declining 3.2% compared to the benchmark index decline of 11.3%. The outperformance can primarily be attributed to the cash holdings of the company over the quarter. As at 30 September 2011, WAM was trading at discount to pre-tax NTA of 10.6%.

### Rating



### LMI TYPE

Listed investment company

### INVESTMENT AREA

Australia

### INVESTMENT ASSETS

Listed companies and other

### INVESTMENT SECTORS

Diversified

### Key Investment Information

Price as at 23 November 2011	\$1.47
Market cap (\$M)	155.7
Shares on issue (M)	105.9
Shares traded (\$M p.a)	26.5
12-month L/H (\$)	1.33/1.68
Listing date	August 1999
<b>Fees</b>	
Management Fee (%)	1.0
Performance incentives (%)	20*

\*The outperformance of the All Ords Acc index or the amount of the increase in the value of the portfolio in the event the All Ords Acc index has fallen.

### Pre-tax NTA Performance Analytics (including dividends)

	All Ords Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	10.54	11.48
TE (%)	7.56	8.36

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield	(%)
FY09	0.0ff
FY10	6.87ff
FY11	5.79ff

Substantial Shareholders	(%)
Victor John Plummer	5.3
Interests associated with Geoff Wilson	3.3
As at 30 September 2011	

## Board of Directors

Geoffrey Wilson	Chairman (Executive)
Matthew Kidman	Director (Non-Executive)
James Chirnside	Director (Non-Executive)
Paul Jensen	Director (Non-Executive)
Kate Thorley	Company Secretary

## Other Data

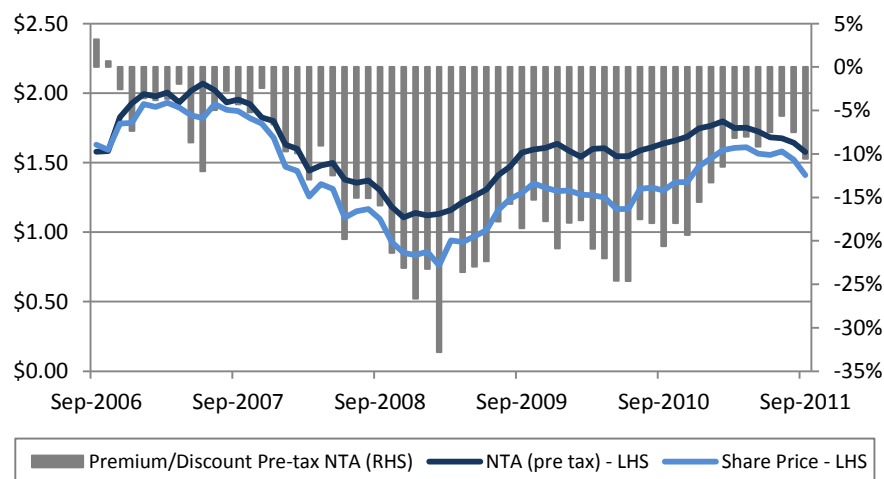
- ◆ **Options** – None currently on offer.
- ◆ **Dividend policy** – The Board is committed to paying an increasing stream of fully franked dividends, provided the company has sufficient franking credits, and it is within prudent business practices.
- ◆ **Capital management policy** – The Board manages the company's capital by regularly reviewing the most efficient manner by which the company employs its capital. Management believes in preservation of shareholder value. This will be achieved through the management of the level of distributions to shareholders, share and option issues as well as share buy-backs.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes

## WAM's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
RKN	4.3	0.0
SGI	3.4	na
CNA	3.3	na
ELI	2.6	na
MMS	2.3	0.1
MYS	1.7	0.0
DKN	1.6	na
CCQ	1.5	na
BRG	1.0	0.0
MAQ	1.0	0.0
	<b>23.1</b>	<b>0.1</b>

Source all figures: WAM/Independent Investment Research/IRESS.  
All data as at 30 September 2011 unless otherwise specified

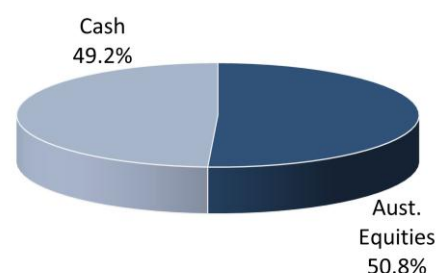
## NAV & Share Price Performance



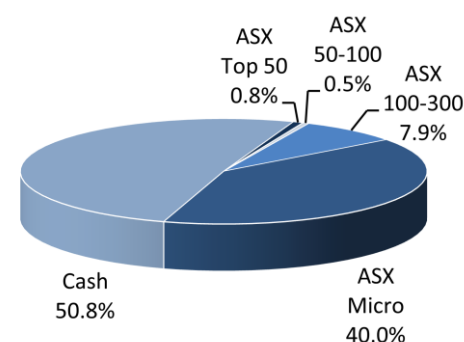
## Sector Breakdown

Sector	(%)
Energy	6.8
Materials	2.2
Industrials	14.2
Consumer Discretionary	16.1
Consumer Staples	1.2
Healthcare	2.3
Financials (ex Property)	38.1
Property	0.0
Information Technology	12.3
Telecommunication Services	6.0
Utilities	0.7

## Asset Weighting



## Size Weighting



## Key Positive Contributors

- ◆ Contango Capital Partners
- ◆ Reckon Limited
- ◆ Signature Capital Investments Limited

## Key Negative Contributors

- ◆ Service Stream Limited
- ◆ Emerging Leaders Investments Limited
- ◆ MSF Sugar Limited

# WAM Research Limited (WAX)



[www.wamfunds.com.au](http://www.wamfunds.com.au)

## Company Overview

WAX was listed in August 2003 under the name Wilson Investment Fund Limited (WIL). The portfolio is managed by Wilson Asset Management. The company invests predominantly in a portfolio of Australian industrial equities with a focus on growth companies, primarily small and mid cap companies.

## Investment Objective

The company aims to provide shareholders a steady stream of fully franked dividends and a high real rate of return, comprising both capital and income.

## Style and Process

WAX's investment philosophy is to invest predominantly in industrial companies with an emphasis on companies that are under researched and mispriced. As such the company focuses on small-to-mid cap companies. The manager uses two investment approaches to identify opportunities: (1) Research driven approach; and (2) Investment driven approach. The research driven process uses extensive research to identify attractive opportunities. The manager views contact with company management as critical to this process, with over 700 management meetings with management each year. The investment driven approach seeks to identify companies that have a sustainable business model, track record of dividends, history of profits and positive free cash flow, acceptable financial strength and attractive return on equity.

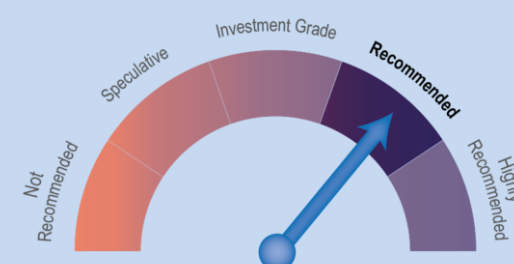
## Portfolio Characteristics

WAX aims to maintain a portfolio of between 30 and 50 securities. The manager focuses on small-to-mid cap stocks with 40% of investments being in companies outside the S&P/ASX 300. Given the company focuses on industrial stocks, the portfolio has very little, if any, exposure to the resource sector. The manager will hold cash if attractive investment opportunities cannot be identified. As at September end, the manager had cash holdings of 34%. The manager does not seek to mimic the returns of the benchmark index as can be seen from the high tracking error.

## Independent Investment Research Comments

WAX predominantly invests in small-to-mid cap industrial stocks. We note that smaller cap stocks tend to entail a greater level of risk; however, the upside potential can be considerable. The manager primarily maintains small positions in securities to minimise risk, however, there are no size restrictions on investments and as such the manager has the ability to take high conviction positions if they so desire. Over the September quarter, WAX's portfolio (pre-tax NTA plus dividends) declined 6.2%, outperforming the benchmark index by 5.1%. WAX was trading at a 15.8% discount to pre-tax NTA at September end.

### Rating



### LMI TYPE

Listed investment company

### INVESTMENT AREA

Australia

### INVESTMENT ASSETS

Listed companies and other

### INVESTMENT SECTORS

Diversified

### Key Investment Information

Price as at 23 November 2011	\$0.68
Market cap (\$M)	81.6
Shares on issue (M)	120.0
Shares traded (\$M p.a.)	17.0
12-month L/H (\$)	0.63/0.81
Listing date	August 2003

### Fees

Management Fee (%)	1.0
Performance incentives (%)	20.0*

\*The outperformance of the All Ords Acc index or the amount of the increase in the value of the portfolio in the event the All Ords Acc index has fallen.

### Pre-tax NTA Performance Analytics (including dividends)

	All Ords Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	10.62	4.52
TE (%)	5.51	8.23

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield	(%)
FY09	6.78ff
FY10	7.30ff
FY11	9.86ff

Substantial Shareholders	(%)
Interests associated with Geoff Wilson	4.7
Victor John Plummer	2.7
As at 30 September 2011	



## Board of Directors

Geoffrey Wilson	Chairman (Executive)
Matthew Kidman	Director (Non-Executive)
John Abernethy	Director (Non-Executive)
Julian Gosse	Director (Non-Executive)
Kate Thorley	Company Secretary

## Other Data

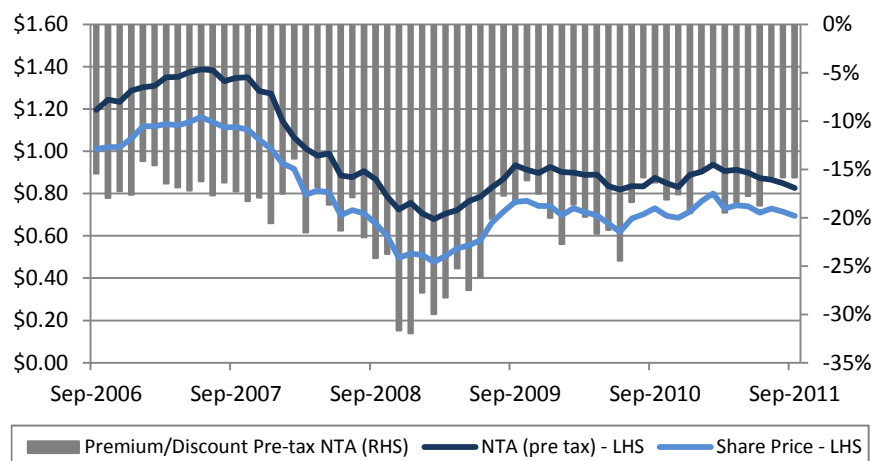
- ◆ **Options** – None currently on offer.
- ◆ **Dividend policy** – The Board is committed to paying an increasing stream of fully franked dividends, provided the company has sufficient franking credits, and it is within prudent business practices.
- ◆ **Capital management policy** – The Board manages the company's capital by regularly reviewing the most efficient manner by which the company employs its capital. Management believes in preservation of shareholder value. This will be achieved through the management of the level of distributions to shareholders, share and option issues as well as share buy-backs.
- ◆ **LIC tax concessions** – Has the potential to pay LIC capital gains to investors.
- ◆ **DRP available** – Yes

## WAX's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
NAB	5.2	4.3
MMS	4.4	0.1
APE	3.9	0.1
RKN	3.5	0.0
MYS	3.3	0.0
WBB	2.8	0.0
BRG	2.7	0.0
ANZ	2.6	4.5
ARP	2.4	0.1
CNA	2.3	na
	<b>33.1</b>	<b>9.1</b>

Source all figures: WAX/Independent Investment Research/IRESS.  
All data as at 30 September 2011 unless otherwise specified

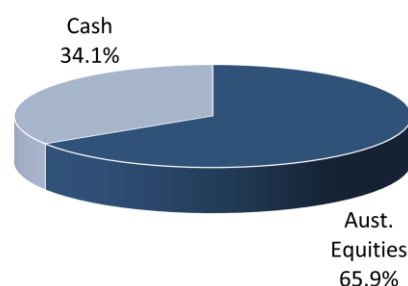
## NAV & Share Price Performance



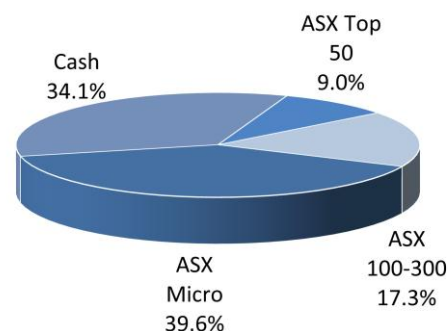
## Sector Breakdown

Sector	(%)
Energy	3.5
Materials	1.7
Industrials	18.5
Consumer Discretionary	25.1
Consumer Staples	0.0
Healthcare	2.7
Financials (ex Property)	30.9
Property	0.0
Information Technology	10.8
Telecommunication Services	5.8
Utilities	1.0

## Asset Weighting



## Size Weighting



## Key Positive Contributors

- ◆ Reckon Limited
- ◆ AP Eagers Limited
- ◆ Mystate Limited

## Key Negative Contributors

- ◆ Service Stream Limited
- ◆ National Australia Bank Limited
- ◆ Westpac Banking Corporation

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