

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

WAM Microcap Limited (ASX code: WMI)

Initiating Coverage

September 2018

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- 1) The research process has complete editorial independence from the company and this is included in the contract with the company;
- 2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
- 4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
- 5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

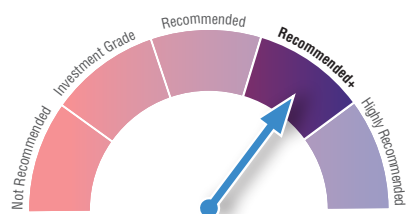
For more information regarding our services please refer to our website www.independentresearch.com.au.

Contents

1. Product Summary.....	1
2. Investor Suitability	1
3. Recommendation.....	1
4. SWOT.....	2
5. Structure	3
6. Management & Corporate Governance	5
7. Investment Process.....	5
8. Portfolio.....	6
9. Performance Analytics	7
10. Peer Comparison.....	9
Appendix A – Ratings Process	11
Appendix B – Managed Investments Coverage	12

Note: This report is based on information provided by Wilson Asset Management.

Rating



Key Investment Information

ASX Code:	WMI
Share Price (\$) at 17 September 2018:	1.475
Market Cap (\$m):	206.7
Shares on Issue (m):	140.2
Options on Issue (m):	0.0
Fully Diluted:	140.2
12 month L/H (\$):	1.275/1.57
Fees:	
Management Fee:	1.0%
Performance Fee:	20.0%
Performance Hurdle:	S&P/ASX Small Ordinaries Accumulation Index or positive portfolio performance if index return is negative.

Key Exposure

Underlying Exposure	The company will primarily invest in a portfolio of ASX-listed micro cap stocks (stocks with a free float adjusted market cap of less than \$300m at the time of investment).
FX Exposure	The company is expected to invest in primarily ASX-listed stocks and therefore there is not expected to be any direct foreign currency exposure.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

1. PRODUCT SUMMARY

WAM Microcap Limited (ASX code: WMI) invests primarily in a portfolio of ASX-listed micro cap stocks (stocks with a free float adjusted market cap of less than \$300m at the time of investment) with the objective of delivering fully franked dividends, providing capital growth over the medium-to-long term and preserving capital. The investment mandate allows the Manager to invest in international stocks, however, the Manager will likely only invest in domestic listed stocks. The portfolio is managed by MAM Pty Limited (the Manager) which is 100% owned by entities associated with Geoff Wilson and forms part of the Wilson Asset Management Group. The Manager employs the same investment team that manages a number of other LICs, including WAA, WAM, WAX and WLE and will be managed using a combination of the proprietary market-driven and research-driven investment approaches. The Manager has the ability to short stocks, however, we expect the portfolio to have a long bias with minimal short exposure at any given time. The Manager will be paid an annual management fee of 1.0% of the gross value of the portfolio and will be eligible for a 20% performance fee of the outperformance of the S&P/ASX Small Ordinaries Accumulation Index (benchmark index) or if the performance of the benchmark index is negative, 20% of the positive portfolio performance.

2. INVESTOR SUITABILITY

An investment in WMI is suitable for those investors seeking to diversify their portfolio to incorporate exposure to micro cap stocks, which can offer a different risk/return profile to large and mid cap stocks. While micro cap stocks are typically less liquid than larger cap stocks, they are typically less researched and can have greater levels of mispricing by the market offering the potential for significant returns for those who can effectively manage risk and identify winners. The Manager has the ability to short stocks through the investment mandate, however, the Manager has indicated that the short positions in the portfolio will likely be insignificant at any given time given the enhanced risks of shorting stocks in the micro cap space. The company will seek to deliver a stream of fully franked dividends provided the company has sufficient profit reserves and franking credits available and it is within prudent business practices to do so.

3. RECOMMENDATION

Independent Investment Research (IIR) has assigned WAM Microcap Limited (ASX code: WMI) a **Recommended Plus** rating. WMI listed in June 2017 and as such has a short performance history. Over its short history the portfolio (pre-tax NTA after tax on realised gains but before tax on unrealised gains, plus dividends) has performed largely in line with the benchmark index (S&P/ASX Small Ordinaries Accumulation Index), increasing 24.4% to 30 June 2018. The strong performance of the portfolio has allowed the company to pay full year dividend for FY18 of 6 cents per share (including a 2 cent special dividend), fully franked, and has resulted in the company having solid dividend coverage. In the event the portfolio continues to perform strongly we would expect the company to incrementally increase the dividend. The Manager uses a combination of the proprietary market-driven and research-driven investment approaches that the investment team uses across all the portfolios that they manage. The investment process has proven successful over the long-term through the WAM portfolio, which has a focus on small caps. The company has generated strong interest with the share price return outperforming the portfolio return with a total share price return of 31.4% from the listing price of \$1.10 to 30 June 2018 and was trading at a premium to pre-tax NTA of 7.0% at June-end. Fees paid to the Manager are in line with the peer group with an appropriate performance fee hurdle. We note that while a performance fee can only be paid in the event portfolio performance is positive, there is no high water mark. As such, the Manager is not required to recoup previous losses before being eligible for a performance fee. A key drawback of the company is the lack of independent representation on the board, with three of the four directors appointed to the board considered executive by IIR, including the Chairman, although we do note that the Chairman has a significant personal investment in the company. We expect the Manager to be able to generate alpha over the long-term through the use of its proprietary investment process, however potential investors should remain patient with respect to finding an entry point into the company given the premiums the company has been trading at.

4. SWOT

STRENGTHS

- ◆ Alignment of interest with shareholders is strong with the three Non-Independent board members investing a total of \$2.3m in the company at the time of the IPO.
- ◆ The portfolio has performed strongly over its short history, capturing the positive returns of the benchmark index (S&P/ASX Small Ordinaries Accumulation Index).
- ◆ The investment process has been applied at the small cap end of the market successfully over the long-term through the WAM vehicle.
- ◆ We view the performance hurdle of a relevant equity index and the payment of a performance fee only when the portfolio return is positive as appropriate, however we note that there is no high water mark with respect to the payment of performance fees, therefore the Manager does not have recoup losses from previous periods in order to be eligible for the performance fee.
- ◆ The strong performance of the portfolio has resulted in pool of profit reserves that could sustain the FY18 dividend (not including the special dividend) for over four years.
- ◆ The company has traded at a premium to pre-tax NTA since listing with an average premium of 9.3% to 30 June 2018. This means investors are willing to pay a premium to gain access to the portfolio and provides additional returns for investors. Investors should consider the timing of an investment of the company so as not to overpay for exposure to the portfolio.

WEAKNESSES

- ◆ Only one of the four directors on the board of WMI are independent, with the Chairman (Geoff Wilson) being the beneficial owner of the Manager. As such it is left up to the those who are managing the portfolio to monitor and regulate their own performance and operations, which can create significant conflicts of interest. A lack of independent representation is a common feature of listed companies managed by Wilson Asset Management Group. The company has advised IIR that they are seeking to add another independent director to the board.
- ◆ IIR views the non-independent members of the board as executive directors given they are employees of Wilson Asset Management. The executive directors are drawing a salary from the company. While the salaries are small, we view the payment of a salary to executive board members as inappropriate as they are being compensated through the payment of fees to the Manager.

OPPORTUNITIES

- ◆ The company offers the opportunity to invest in a professionally managed portfolio of micro cap equities to diversify their portfolio using proprietary investment processes that have delivered above market returns over the long-term.
- ◆ Micro cap stocks tend to have limited research available and as such require time by investors to undertake research. The company provides exposure to the micro cap sector for those investors that are time poor and don't have the resources to undertake research on this area of the market.

THREATS

- ◆ The Manager has the ability to short stocks. There is an added level of risk associated with shorting micro cap stocks given the lack of liquidity and potential for high levels of volatility. While the mandate allows for the Manager to invest up to 50% of the portfolio in short positions, we expect the short exposure of the portfolio to be minimal.
- ◆ The Manager may hold high levels of cash to preserve shareholders capital. This can be seen as an opportunity and a threat given cash holdings may provide downside protection in weak markets, however, this may result in the company missing out on some of the market upside in strong markets.

5. STRUCTURE

PRODUCT OVERVIEW

WAM Microcap Limited (ASX: WMI) is an investment company that was listed in June 2017. The company raised \$154m through the IPO and was largely invested after one month. The portfolio is managed by MAM Pty Limited (the Manager) which is 100% owned by entities associated with Geoff Wilson and forms part of the Wilson Asset Management Group. The Manager employs the same investment team that manages a number of other LICs, including WAA, WAM, WAX and WLE and will be managed using a combination of the proprietary market-driven and research-driven investment approaches.

WMI invests primarily in a portfolio of ASX-listed micro cap stocks (less than \$300m free float adjusted market cap at the time of investment) with the objective of delivering fully franked dividends, provide capital growth over the medium-to-long term and preserve capital. The investment mandate allows the Manager to invest in international stocks, however, the Manager will likely only invest in domestic listed stocks. The Manager has the ability to short stocks, however, we expect the portfolio to have a long bias with minimal short exposure at any given time.

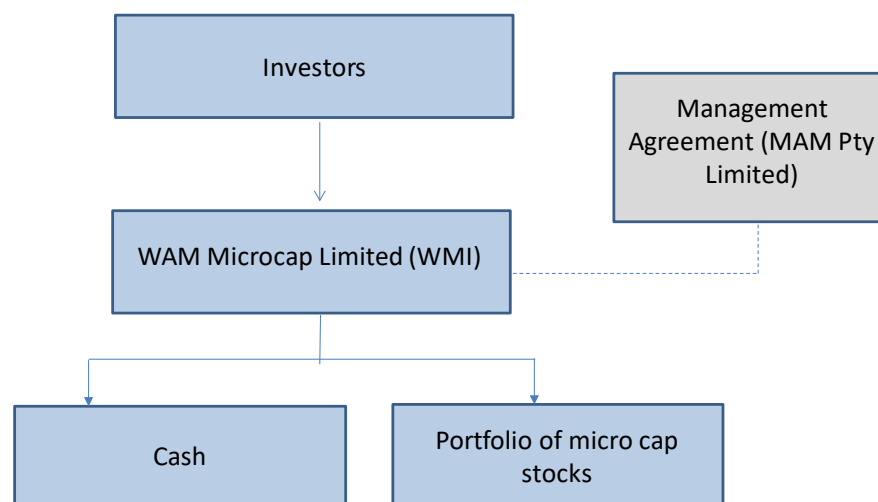
The portfolio is expected to be diversified typically holding 20 to 70 stocks with a weighting of 1%-5%. At 30 June 2018, the largest position in the portfolio was 4.0% and the portfolio comprised of 74 positions. In the event the Manager cannot identify any attractive investment opportunities, the Manager can hold up to 100% cash. The Manager has been largely invested since listing with an average month-end cash holding of 19.7% to 30 June 2018.

The Manager will select stocks based on a combination of two propriety strategies. Long-term investments will be determined by the research-driven investment approach, and short-term trading opportunities will be determined by the market-driven investment approach. A form of all these investment approaches are used in all the portfolios managed by the Manager.

The company will seek to deliver a stream of fully franked dividends paid on a semi-annual basis. The company announced an inaugural interim dividend of 2 cents per share, fully franked, and declared a final dividend of 2 cents per share plus a special dividend of 2 cents per share, fully franked, for a total dividend for FY18 of 6 cents per share. This equates to a yield of 4.1% based on the shares price at 17 September 2018.

The Manager will be paid an annual management fee of 1.0% of the gross value of the portfolio and will be eligible for a 20% performance fee for the outperformance of the S&P/ASX Small Ordinaries Accumulation Index (benchmark index) or if the performance of the benchmark index is negative, 20% of the positive portfolio performance.

INVESTMENT STRUCTURE



Product Leverage	
Used:	The Manager does not intend to use leverage to gain additional exposure to stocks, however the Manager may use derivatives for the purposes of currency hedging or to provide portfolio protection.
Cost (incl. Fees):	na
Capital Protection	
na	
Tax	
Disclaimer:	<i>Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Independent Investment Research's expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.</i>
Capital gains:	A capital gains tax (CGT) event will likely occur in the event the investor sells the shares on market for a higher price than it was purchased for. Investors will likely be eligible for the CGT discount if the shares are held for more than 12 months.
Dividends:	Dividends will likely be on income account in the year earned.
Legal Structure	
Wrapper:	Listed Investment Company
Investment Manager.:	MAM Pty Limited
Investor Leverage	
Available:	No
Risks	
<i>The below is not a full list of all risks associated with the company but highlights what IIR considers to be the more significant risks associated with the company. A detailed risk assessment can be obtained from the Prospectus.</i>	
Discount Risk:	As with all LIC's the company may trade at a discount to pre-tax NTA for various reasons. While this can provide new investors with an opportunity to add to the capital return of the investment, in the event the company trades at a discount for a prolonged period of time, investors may not be able to realise their investment at the portfolio value. We note that WMI has traded at a premium to pre-tax NTA since listing.
Performance Risk:	The performance of the portfolio is largely dependent on the stock picking abilities of the Manager. In the event the Manager selects stocks that do not perform to expectations this may result in the portfolio not achieving the companies objectives.
Dilution Risk:	The company may issue new shares which may dilute the position of existing shareholders. We note that the Manager has advised IIR that they do not intend to raise any additional capital, therefore the risk of dilution is low.
Short Selling Risk:	Short selling involves a greater level of risk than investing long with short positions theoretically having an unlimited risk of loss.

6. MANAGEMENT & CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The company has appointed four directors to the WMI board, three of which IIR considers to be executive directors. The large proportion of executive directors creates the potential for significant conflicts of interest given the directors are effectively monitoring and reviewing themselves. Given the make-up of the board, it would be unlikely for the Manager to be removed from its position irrespective of the performance of the portfolio.

Board of Directors		
Name	Position	Experience
Geoff Wilson	Non-Independent Chairman	Mr. Wilson has over 37 years experience in investment markets, holding a variety of senior investment roles in Australia, UK and the USA. Mr. Wilson founded Wilson Asset Management in 1997, a funds management business that has \$3 billion FUM.
Jacqueline Sullivan	Independent Director	Ms. Sullivan has 30 years experience in funds management. Ms. Sullivan has held a number of senior executive roles across the Australian and global AMP Capital businesses. This included head of global distribution and Head of Product.
Kate Thorley	Non-Independent Director	Ms. Thorley has over 12 years experience in funds management and more than 18 years of financial accounting and corporate governance experience. Ms. Thorley is the CEO of Wilson Asset Management.
Chris Stott	Non-Independent Director	Mr. Stott has more than 14 years experience in funds management. Mr. Stott joined Wilson Asset Management in 2006 after working at Challenger Financial Services Group. Mr. Stott is the Chief Investment Officer of Wilson Asset Management.

INVESTMENT MANAGER

MAM Pty Limited has been appointed as the Manager of the portfolio. MAM Pty Limited is 100% owned by entities associated with Geoff Wilson, the Chairman of the company. The Manager employs the same investment team as Wilson Asset Management (International) Pty Limited (WAMI). The Manager and WAMI together make up the Wilson Asset Management Group. The Wilson Asset Management Group has ~\$3 billion FUM.

The investment team has nine investment personnel that manage the respective portfolio mandates for the Wilson Asset Management Group. These include five other LICs, WAA, WAM, WAX, WLE and CYA. Four members of the investment team will be directly responsible for the WMI portfolio, tabled below. While the four investment team members will be responsible for the WMI portfolio, we note that the investment team has a collaborative approach across portfolios with information regarding company research shared across the whole investment team.

The Investment Management Agreement (IMA) is for an initial five year term with an automatic five year extension unless the Manager is terminated.

Investment Team			
Name	Position	Years Experience	Years at Investment Manager
Chris Stott	Chief Investment Officer/Portfolio Manager	14	12
Martin Hickson	Portfolio Manager	9	8
Oscar Oberg	Portfolio Manager	10	2
Tobias Yao	Portfolio Manager	9	4

7. INVESTMENT PROCESS

Investment Objective

The company seeks to: (1) deliver a stream of fully franked dividends; (2) provide capital growth over the medium-to-long term; and (3) preserve capital.

The company seeks to achieve this through the investment in a portfolio of primarily micro cap companies and by following some broad principles including: (i) focusing on companies that are trading below the Manager's valuation of the company and are subject to a catalyst that the Manager believes is not yet priced into the stock; (ii) index unaware investing; and (iii) using cash to preserve capital in the event attractive investment opportunities cannot be identified.

Investment Process

The Manager has a proprietary stock selection process that it uses across all of its portfolios. The Manager will employ a combination of its research-driven approach and the market-driven approach. The investment process is detailed below.

1) Research-Driven Approach

- ◆ The research-driven approach will be used to select long-term investments for the portfolio.
- ◆ Stocks are subject to fundamental research which includes meeting with management, industry and competitive advantage analysis. Free cashflow and return on equity are a focus to determine the quality of companies.
- ◆ Companies are rated based on the Investment Manager's assessment of quality of management, earnings growth potential, valuation and industry position.
- ◆ The Manager will only invest in a security identified as attractive through its research process if a catalyst can be identified, that in the Manager's view has not yet been factored into the share price.

2) Market-Driven Approach

- ◆ The market-driven approach is used to identify short-term trading opportunities.
- ◆ The investment approach seeks to take advantage of short-term relative arbitrage opportunities and mispricings in the market. Opportunities include:
 - Placements, IPOs and rights issues;
 - Investments based on market themes and trends;
 - Taking advantage of financial transactions, including mergers and acquisitions, schemes of arrangements, corporate spin-offs and corporate restructures;
 - Arbitrage opportunities in the hybrid market;
 - Acquiring positions in LICs that are trading at a discount to NTA.

Portfolio Construction

- ◆ The average portfolio weighting of investments is expected to be between 1%-5%, however positions may be larger or smaller than this with no limitations on the size of the investment. The Investment Manager will review positions regularly.
- ◆ The Manager does not intend to use debt to leverage the portfolio.
- ◆ The Investment Manager may take short positions with up to 50% of the portfolio able to be invested in short positions, however we expect the short exposure of the portfolio to be minimal at any given time given the investment universe.
- ◆ Investments will be made on a case by case basis with the portfolio to be benchmark unaware. Catalysts for those investments identified as attractive will determine whether an investment is included in the portfolio.

8. PORTFOLIO

- ◆ At 30 June 2018, the portfolio comprised 74 positions. As noted above, the portfolio will primarily invest in ASX-listed micro cap stocks (market cap of less than \$300m at the time of investment), however, the Manager will invest in stocks that have a market cap of more than \$300m if there is less than \$300m free float adjusted. The investment in VAH is an example of this.
- ◆ The portfolio will be diversified, typically with 20 to 70 stocks in the portfolio and a weighting of 1%-5%. While we cannot disclose the size of positions, we can confirm that the largest position at 30 June 2018 was 4.0%.

Top 10 Portfolio Holdings as at 30 June 2018	
Company	ASX Code
Adairs Limited	ADH
Cabcharge Australia Limited	CAB
CML Group Limited	CGR
Emeco Holdings Limited	EHL
Generational Development Group Limited	GDG
Onevue Holdings Limited	OVH
Pacific Current Group Limited	PAC
PSC Insurance Group Limited	PSI
Specialty Fashion Group Limited	SFH
Veris Limited	VRS

- ◆ The Manager will focus on industrial companies with little exposure to the materials sector. This is due to the basis of the stock analysis applied by the Manager. At 30 June 2018, the largest exposure was to the Industrial sector, with 31.6% of the portfolio allocated to this sector.

Sector Exposure (Ex Cash) as at 30 June 2018	
Sector	Weighting
Energy	1.0%
Materials	4.5%
Industrial	31.6%
Consumer Discretionary	21.8%
Consumer Staples	2.7%
Healthcare	5.4%
Financials (ex Property)	19.9%
Property	1.4%
Information Technology	8.5%
Telecommunication Services	3.2%
Utilities	0.0%

9. PERFORMANCE ANALYTICS

SUMMARY OF ANALYTICAL RESULTS

We have reviewed the performance of WMI since listing in June 2017 to 30 June 2018. Given the short performance history of WMI we have also included the performance of WAM, the portfolio of which is managed by the Manager using a combination of the two investment processes used to manage the WMI portfolio. This provides an insight into the ability of the Manager to select stocks using the stock selection processes. The key findings include:

- ◆ Over the 12 months to 30 June 2018, the portfolio (pre-tax NTA after realised tax but before unrealised tax, plus dividends) has performed well, increasing 24.4%. The portfolio has performed largely in line with the benchmark index (S&P/ASX Small Ordinaries Accumulation Index), which returned 24.2% over the period.
- ◆ The majority of gains were made in the first six months of listing, with the portfolio value rising 23.4% from listing to 31 December 2017 and 0.9% for the second six months of the year. The strong performance in the first half of operations has resulted in the company having a strong profit reserve from which to pay dividends. The company paid an inaugural interim dividend of 2 cents per share, fully franked, and declared a final dividend of 2 cents per share and special dividend of 2 cents per share, fully franked. Based on the current profit reserve at 30 June 2018, the company has enough reserves to maintain the FY18 dividend for over four years (not including the special dividend).

- ◆ The share price has traded at a premium to pre-tax NTA since listing, with the company trading at an average month-end premium of 9.3% to 30 June 2018. At June-end, the company was trading slightly below the average premium at 7.0%.
- ◆ The Manager is responsible for the management of the WAM portfolio. The Manager uses a combination of the two stock selection processes for both these mandates, similar to the process that is used for WMI. WAM has a long history and has outperformed the market over the long-term from both a portfolio perspective and a share price perspective.
- ◆ With WAM typically having a focus on small cap stocks, the performance of the WAM portfolio suggests the Manager has the ability to effectively apply the investment processes at the small-end of the market.

PERFORMANCE HISTORY

Historical Performance of WMI

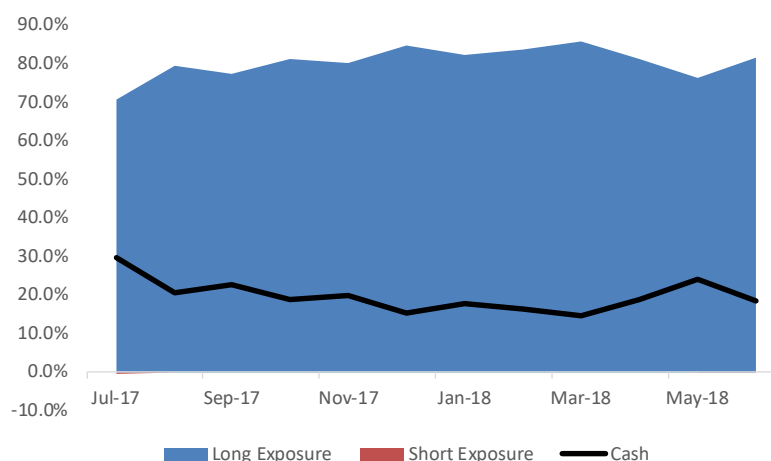
- ◆ The WMI portfolio has performed well over its short history. The pre-tax NTA (before tax) has outperformed the benchmark index, rising 27.2% from since inception to 30 June 2018, compared to the benchmark index of 24.2%.
- ◆ After taking into account taxes on realised gains, the portfolio has performed largely in line with the benchmark index slightly, rising 24.4%. IIR prefers to use the pre-tax NTA after tax on realised gains as it provides a better picture of the value of the portfolio for investors.
- ◆ On both pre-tax NTA metrics, the portfolio has experienced greater volatility than the benchmark index, resulting in the sharpe ratio being below the index across both portfolio value measures.

WMI Portfolio Performance to 30 June 2018			
	Pre-tax NTA (before tax), plus dividends	Pre-tax NTA (after tax on realised gains but before tax on unrealised gains), plus dividends	S&P/ASX Small Ordinaries Accumulation Index
Return:			
Since Inception to 30 June 2018	27.2%	24.4%	24.2%
Risk:			
Standard Deviation	9.5%	10.0%	7.9%
Sharpe Ratio*	2.6	2.2	2.7

*RFR based on the Australian 10-year government bond yield at 29 June 2018 of 2.63%.

- ◆ The Manager can short stocks with the investment mandate allowing the Manager to short up to 50% of the portfolio. However, we view it highly unlikely for the Manager to have a large short exposure at any given time, with the portfolio expected to be primarily long.
- ◆ This is highlighted by the below chart. To date, there has only been one short position held to date with a maximum portfolio exposure of 0.2%. There is a significant level of risk with shorting stocks in the small cap space due to low levels of liquidity and high levels of volatility that can result. Further to this, it can be hard to find the ability to borrow the stocks in this space, which is why we expect to see the short exposure fairly muted.

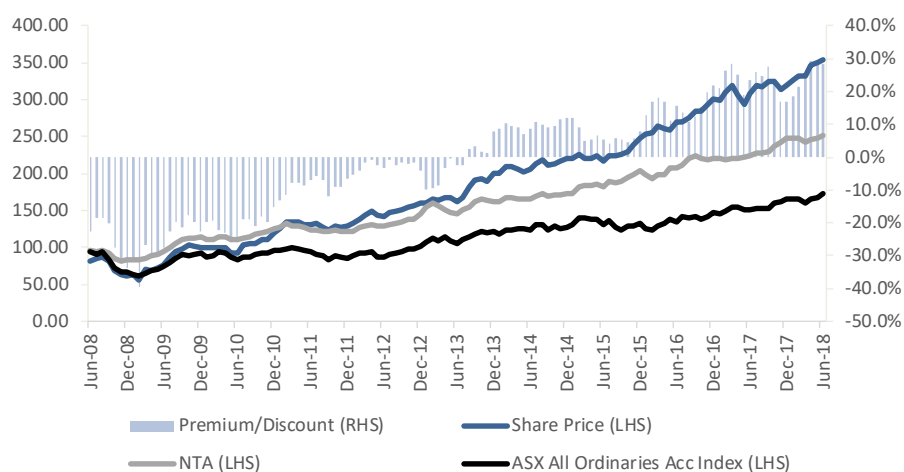
Historical Portfolio Long/Short Exposure



Historical Performance of WAM

- ◆ The management of WAM uses a combination of the two stock selection processes to construct the portfolios. WAM is an all cap portfolio with a focus on small and mid cap stocks.
- ◆ WAM has been trading for nearly 20 years, being listed in 1999. Over the ten years to 30 June 2018, the portfolio (pre-tax NTA after tax on realised gains but before tax on unrealised, plus dividends) has outperformed the benchmark index (ASX All Ordinaries Accumulation Index), returning 10.2%p.a compared to 6.2%p.a for the benchmark index.
- ◆ The portfolio performance has been overshadowed by the share price return over the ten year period, with the share price (plus dividends) returning 15.7% p.a. The share price performance has been boosted by the company moving from trading at a discount to pre-tax NTA to a significant premium, as shown in the below chart.

WAM Performance (30 June 2008 to 30 June 2018)



10. PEER COMPARISON

- ◆ The below tabled peer group are LICs/LITs that have a domestic small and micro cap focus with a long bias.
- ◆ WMI is the largest of the LICs/LITs by market cap with a market cap of \$206.7m as at 17 September 2018. Six of the ten companies/trusts tabled below have a market cap of below \$100m. Companies/trusts of this size are considered sub-optimal and tend to trade at a discount to pre-tax NTA given the liquidity restraints associated with the company/trust.
- ◆ From a fee perspective, WMI is paying the Manager fees that are in line with the peer group, with a performance fee hurdle that is commonly used by the peer group.

Peer Comparison						
LIC Name	ASX Code	Listing Date	Market Cap (\$m)*	Management Fee (% p.a)	Performance Fee (%)	Performance Fee Hurdle
8IP Emerging Companies Limited	8EC	Dec 2015	37.3	1.25%	20.0%	RBA Cash Rate + 2%
Acorn Capital Investment Fund Limited	ACQ	May 2014	67.7	0.95%	20.0%	S&P/ASX Small Ordinaries Acc Index
Forager Australian Shares Fund	FOR	Dec 2016	159.6	1.10%	10.0%	8% p.a.
Glennon Small Companies Limited	GC1	Aug 2015	48.1	1.00%	20.0%	S&P/ASX Small Ordinaries Acc Index
Naos Emerging Opportunities Company Limited	NCC	Feb 2013	76.7	1.25%	15.0%	S&P/ASX Small Ordinaries Acc Index
NAOS Small Cap Opportunities Company Limited	NSC	Mar 2004	140.3	1.15%	20.0%	S&P/ASX Small Ordinaries Acc Index
Ozgrowth Limited	OZG	Jan 2008	64.2	1.00%	20.0%	7.0% p.a.
Ryder Capital Limited	RYD	Sep 2015	50.5	1.25%	20.0%	RBA Cash Rate + 4.25%
Spheria Emerging Companies Limited	SEC	Dec 2017	125.4	1.00%	20.0%	S&P/ASX Small Ordinaries Acc Index
WAM Microcap Limited	WMI	Jun 2017	206.7	1.00%	20.0%	S&P/ASX Small Ordinaries Acc Index

*As at 17 September 2018.

- ◆ Given the Manager was largely invested after the first month of trading we have provided a comparison of returns for WMI compared to the peer group over its short history.
- ◆ As can be seen in the below table, there were varied returns over the 12 month period to 30 June 2018. WMI's portfolio return (pre-tax NTA after realised tax but before unrealised tax, plus dividends) returns were above the median returns for the peer group of 7.2%. The share price has also performed strongly, with the second largest share price return over the 12 months to 30 June 2018.

Peer Group Performance (30 June 2017 to 30 June 2018)				
LIC Name	ASX Code	Total Portfolio Return*	Total Share Price Return	Discount/Premium to Pre-tax NTA**
8IP Emerging Companies Limited	8EC	1.9%	6.8%	-12.3%
Acorn Capital Investment Fund Limited	ACQ	31.0%	30.7%	-15.9%
Forager Australian Shares Fund	FOR	7.2%	6.6%	18.5%
Glennon Small Companies Limited	GC1	27.6%	16.1%	-17.4%
Naos Emerging Opportunities Company Limited	NCC	3.1%	-0.6%	-0.4%
NAOS Small Cap Opportunities Company Limited	NSC	-2.2%	-8.8%	-16.8%
Ozgrowth Limited	OZG	19.2%	15.8%	-20.4%
Ryder Capital Limited	RYD	29.8%	17.8%	-20.1%
Spheria Emerging Companies Limited [#]	SEC	5.1%	-3.0%	-7.7%
WAM Microcap Limited	WMI	24.4%	28.5%	7.0%

*Portfolio return refers to pre-tax NTA after tax on realised gains but before tax on unrealised gains, plus dividends.

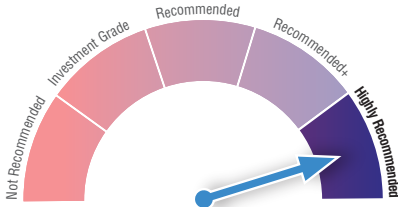
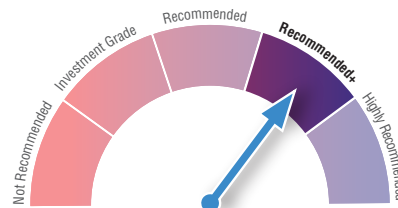
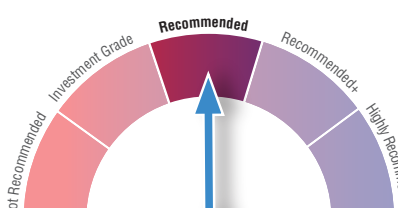
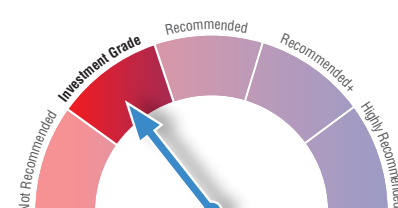
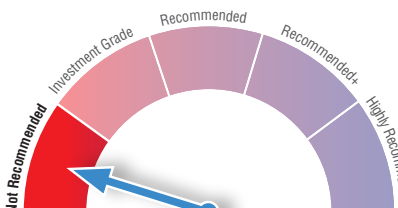
[#]Listed in December 2017 so doesn't have a full 12 months performance.

**As at 30 June 2018.

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD “IIR” RATING SYSTEM.

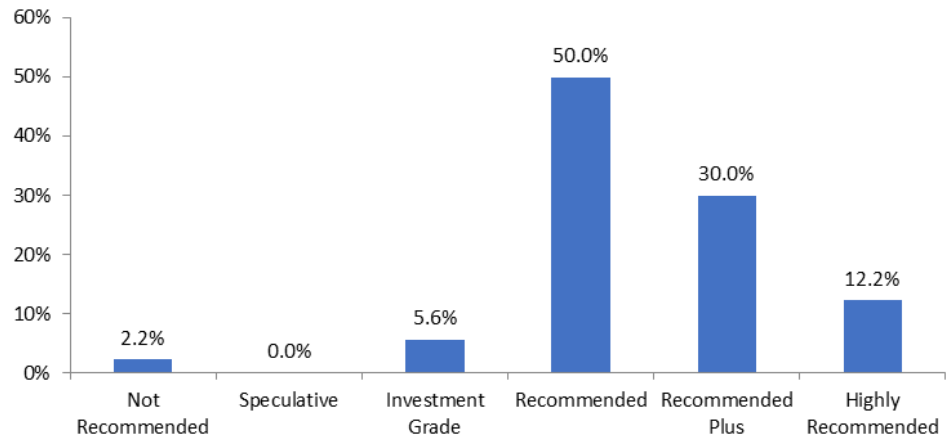
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60-70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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