

# WAM Active Limited (WAA)

Listed Managed Investments

March 2018 Quarterly Review

## WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

### INDEPENDENCE OF RESEARCH ANALYSTS

Research analysts are not directly supervised by personnel from other areas of the Firm whose interests or functions may conflict with those of the research analysts. The evaluation and appraisal of research analysts for purposes of career advancement, remuneration and promotion is structured so that non-research personnel do not exert inappropriate influence over analysts.

Supervision and reporting lines: Analysts who publish research reports are supervised by, and report to, Research Management. Research analysts do not report to, and are not supervised by, any sales personnel nor do they have dealings with Sales personnel

Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

### INDEPENDENCE – ACTIVITIES OF ANALYSTS

IIR restricts research analysts from performing roles that could prejudice, or appear to prejudice, the independence of their research.

Pitches: Research analysts are not permitted to participate in sales pitches for corporate mandates on behalf of a Broker and are not permitted to prepare or review materials for those pitches. Pitch materials by investor clients may not contain the promise of research coverage by IIR.

No promotion of issuers' transactions: Research analysts may not be involved in promotional or marketing activities of an issuer of a relevant investment that would reasonably be construed as representing the issuer. For this reason, analysts are not permitted to attend "road show" presentations by issuers that are corporate clients of the Firm relating to offerings of securities or any other investment banking transaction from that our clients may undertake from time to time. Analysts may, however, observe road shows remotely, without asking questions, by video link or telephone in order to help ensure that they have access to the same information as their investor clients.

Widely-attended conferences: Analysts are permitted to attend and speak at widely-attended conferences at which our firm has been invited to present our views. These widely-attended conferences may include investor presentations by corporate clients of the Firm.

Other permitted activities: Analysts may be consulted by Firm sales personnel on matters such as market and industry trends, conditions and developments and the structuring, pricing and expected market reception of securities offerings or other market operations. Analysts may also carry out preliminary due diligence and vetting of issuers that may be prospective research clients of ours.

### INDUCEMENTS AND INAPPROPRIATE INFLUENCES

IIR prohibits research analysts from soliciting or receiving any inducement in respect of their publication of research and restricts certain communications between research analysts and personnel from other business areas within the Firm including management, which might be perceived to result in inappropriate influence on analysts' views.

Remuneration and other benefits: IIR procedures prohibit analysts from accepting any remuneration or other benefit from an issuer or any other party in respect of the publication of research and from offering or accepting any inducement (including the selective disclosure by an issuer of material information not generally available) for the publication of favourable research. These restrictions do not preclude the acceptance of reasonable hospitality in accordance with the Firm's general policies on entertainment, gifts and corporate hospitality.

### DISCLAIMER

This publication has been prepared by Independent Investment Research (Aust) Pty Limited trading as Independent Investment Research ("IIR") (ABN 11 152 172 079), an corporate authorised representative of Australian Financial Services Licensee (AFSL no. 410381). IIR has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. Each company specified in the Report (the "Participants") has provided IIR with information about its current activities. While the information contained in this publication has been prepared with all reasonable care from sources that IIR believes are reliable, no responsibility or liability is accepted by IIR for any errors, omissions or misstatements however caused. In the event that updated or additional information is issued by the "Participants", subsequent to this publication, IIR is under no obligation to provide further research unless commissioned to do so. Any opinions, forecasts or recommendations reflects the judgment and assumptions of IIR as at the date of publication and may change without notice. IIR and each Participant in the Report, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither IIR nor the Participants are aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. This document does not constitute an offer of services in jurisdictions where IIR or its affiliates do not have the necessary licenses. IIR and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. IIR and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

IIR, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. IIR discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may affect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any).

However, under no circumstances has IIR been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report. The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.independentresearch.com.au/Public/Disclaimer.aspx>.

### THIS IS A COMMISSIONED RESEARCH REPORT.

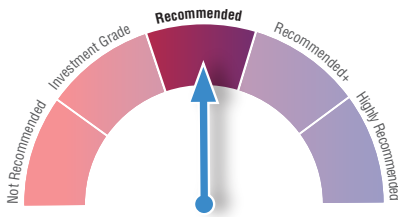
The research process includes the following protocols to ensure independence is maintained at all times:

- 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](http://www.independentresearch.com.au).



## Rating



## LMI Type

Listed investment company

## Investment Area

Australia

## Investment Assets

Listed companies and other

## Investment Sectors

Diversified

## Key Investment Information

Price (\$) as at 5 June 2018	1.09
Market cap (\$M)	45.3
Shares on issue (M)	41.6
Options on issue (M)	29.3
Shares traded (\$M p.a)	9.3
12-month L/H (\$)	106.5/1.175
Listing date	January 2008

## Fees

Management Fee (%)	1.00
Performance incentives (%)	20.0*

\*20% of the increase in the gross value of the portfolio, subject to a high watermark.

## Premium/Discount to Pre-tax NTA

As at 31 March 2018	4.2%
3 year average	4.2%

## Dividend Yield

	%
FY15	4.87ff
FY16	4.85ff
FY17	4.77ff

## Largest Shareholders

	%
GW Holdings Pty Ltd	2.5
Sanolu Pty Ltd	1.8

As at 31 March 2018

## COMPANY OVERVIEW

WAM Active Limited (ASX:WAA) is a listed investment company that provides exposure to an active trading style with the aim of achieving a positive return in all market conditions and a low correlation to traditional markets. The company was listed in January 2008 and the portfolio is managed by MAM Pty Limited, a member of the Wilson Asset Management group of companies.

## 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 a steady stream of fully franked dividends, provide a positive return with low volatility (after fees) and preserve the company's capital in both the short-and long-term.

## STYLE AND PROCESS

WAA invests predominantly in ASX-listed securities. 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 arbitrage and mispricing in the market. The manager participates in IPOs, rights issues, placements, schemes of arrangement and looks for arbitrage opportunities and discount to asset plays, along with other market events viewed as favourably priced. The manager utilises stop-losses on 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% in cash if attractive investment opportunities cannot be identified. The company currently has three LICs in its top ten holdings. The company invests in LICs trading at a discount to NTA and aims to profit from the eradication of this discount. After deploying a significant amount of cash in the December quarter, the Manager exited a number of positions with the cash holding rising back to 39% at March-end. The Manager reduced its exposure to large and mid-cap stocks from 29.9% at December-end to 12.5% at March-end.

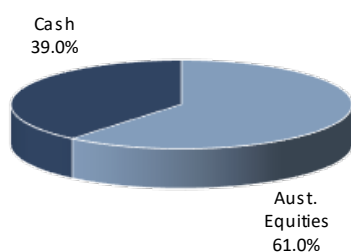
## INDEPENDENT INVESTMENT RESEARCH COMMENTS

The absolute return nature of WAA means that the company does not intend to mimic the returns of the market but generate positive returns despite the direction of the market. This is reflected by the high tracking error. The company's strategy incorporates the use of short selling to generate returns. No more than 10% of the portfolio has been 'short' since inception with portfolio having a 1.4% short exposure at March-end. The portfolio may hold high levels of cash, which will contribute to the outperformance of the portfolio when the market generates negative returns, however may result in the manager not participating in market upturns. The portfolio is actively managed and therefore experiences high levels of turnover. Over the ten years to 31 March 2018, the company has outperformed the market (ASX All Ordinaries Accumulation Index), generating a return of 7.4%p.a compared to the market return of 5.3%p.a. The portfolio has achieved this with significantly lower volatility. While the total share price return has underperformed the portfolio on a one-and-three year period to 31 March 2018, the share price return has outperformed the portfolio return over the longer-term. The company was trading at a premium to pre-tax NTA of 4.2% at March-end. Investors should note that there are 29.3m options on issue with an exercise price of \$1.14 and an exercise date of 17 September 2018. We would expect the option overhang to limit share price increases until the options mature.

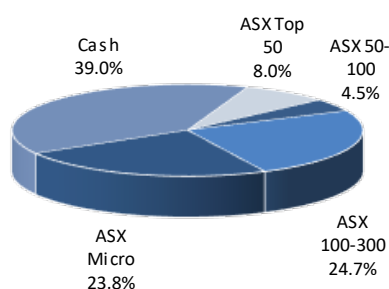
## SECTOR BREAKDOWN (EX CASH)

Sector	31 Dec (%)	31 Mar (%)
Energy	1.9	0.6
Materials	3.6	3.3
Industrials	18.8	17.9
Consumer Discretionary	17.3	14.3
Consumer Staples	4.4	9.0
Healthcare	9.3	6.7
Financials (ex Property)	39.5	46.3
Property	2.5	0.0
Information Technology	0.6	1.0
Telecommunication Services	2.2	0.9
Utilities	0.0	0.0

### Asset Weighting



### Size Weighting



### Board of Directors

Geoff Wilson	Chairman (Executive)
Matthew Kidman	Director (Non-Executive)
John Abernethy	Director (Non-Executive)
Chris Stott	Director (Executive)
Kate Thorley	Director (Executive)

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

## PERFORMANCE ANALYTICS

Performance	Mar Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	0.3	7.8	8.3	6.4
Peer Group Median (pre-tax NTA plus dividends), %*	-2.0	6.5	7.3	6.6
ASX All Ords Acc Index (%)	-3.7	3.6	4.4	7.9
Out/Under performance of index (%)	4.0	4.1	3.9	-1.4
Share Price + Dividends (%)	-0.4	5.0	6.5	6.7
Tracking Error (%)	2.2	4.7	8.8	9.5

\*Australian Mid/Small Cap Shares as classified in the IIR monthly LIC report.

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

## OTHER DATA

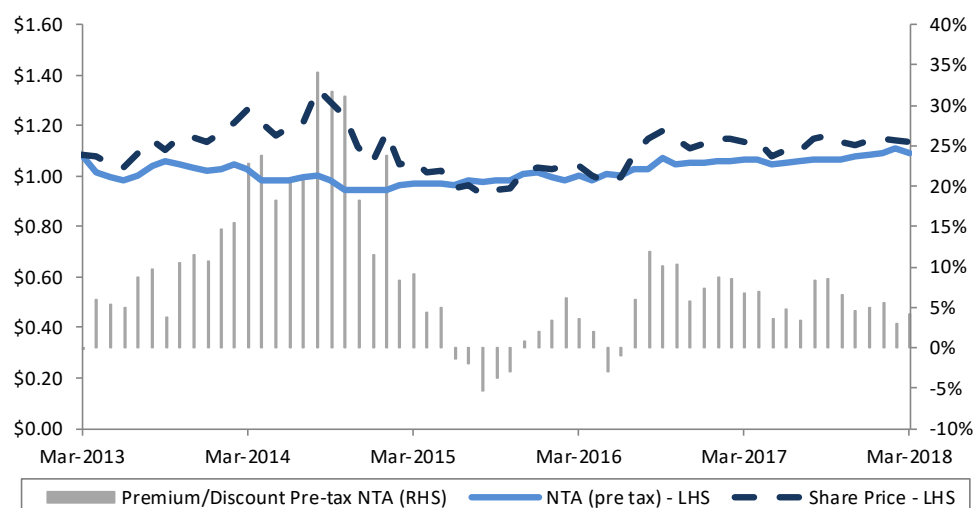
- ◆ **Dividend policy** – The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the company has sufficient profit reserves, franking credits, and it is within prudent business practices. The Company's ability to generate franking credits is dependent upon the receipt of franked dividends from investments and the payment of tax. Dividends are paid on a six-monthly basis.
- ◆ **Capital management policy** – The Board regularly reviews the most efficient manner by which the company employs its capital. At the core is the belief that shareholder value should be preserved through the management of the level of distributions to shareholders, share and options issues as well as the use of share buy-backs, to be used when deemed appropriate by the Board.
- ◆ **LIC tax concessions** – None.
- ◆ **DRP available** – Yes, for both interim and final dividend.

### WAA's Portfolio (Top 10) Weighting

Code	Portfolio (%)	All Ords (%)
PIA	4.5	na
SWW	3.8	0.3
TGG	3.5	na
AOG	3.1	0.1
MTR	2.7	0.1
ALL	2.2	0.8
WDE	2.1	na
TGP	2.1	0.0
MIN	2.0	0.2
REA	2.0	0.6
	<b>28.0</b>	<b>2.1</b>

Source all figures: WAA/Independent Investment Research/IRESS. All data as at 31 March 2018 unless otherwise specified.

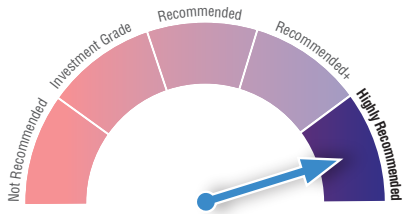
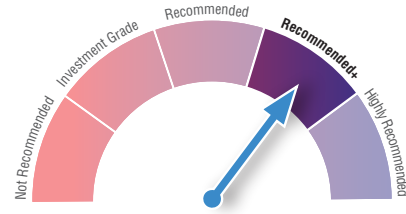
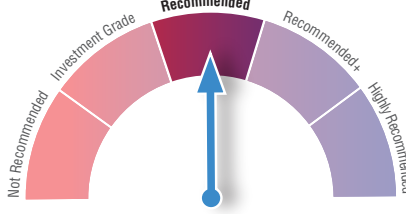
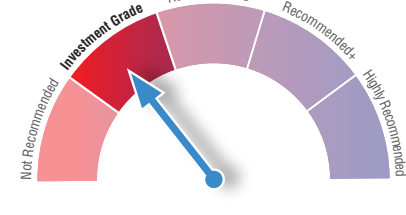
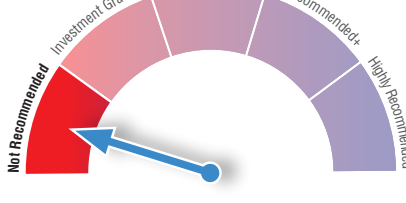
### NTA & Share Price Performance



## 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: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

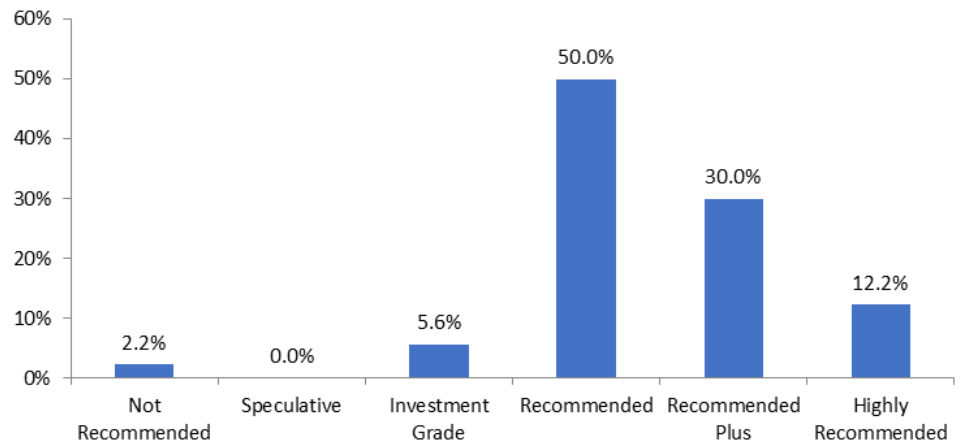
LMI Ratings	SCORE
<p><b>Highly Recommended</b></p> 	<p><b>83 and above</b></p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high 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><b>Recommended +</b></p> 	<p><b>79–83</b></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><b>Recommended</b></p> 	<p><b>70–79</b></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><b>Investment Grade</b></p> 	<p><b>60–70</b></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><b>Not Recommended</b></p> 	<p><b>&lt;60</b></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**



## (a) Disclaimer

The information, reports, financial models, forecasts, strategies, audio broadcasts and other media (referred to as "Content" throughout this Legal Notice), provided on this web site has been prepared and issued by Altavista Research Pty Ltd trading as Independent Investment Research "IIR," Independent Investment Research Holdings Pty Ltd (ACN 155 226 074), as authorised to publish research under an Australian Financial Securities Licence (AFSL No 420170) which allows Independent Investment Research to offer financial service advice to retail and wholesale clients. Users of this web site should not act on any Content without first seeking professional advice. Whilst the Content contained on this web site has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by Independent Investment Research, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. Content on this web site is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. We are not aware that any user intends to rely on the Content provided or of the manner in which a user intends to use it. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Access by any user to this website does not create a client relationship between Independent Investment Research and the user. Users seeking to invest must obtain individual financial advice to determine whether recommendations are appropriate to their investment objectives, personal financial situation or particular needs, before acting on any recommendations. Any Content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of Independent Investment Research.

## (b) Disclosure of Interest

### General

Independent Investment Research, its officers, employees, consultants and its related bodies corporate have not and will not receive, whether directly or indirectly: any commission; fee; benefit; or advantage, whether pecuniary or otherwise, in connection with making any recommendation contained on this web site. Independent Investment Research, discloses that from time to time, it or its officers, employees and its related bodies corporate: may have an interest in the securities, directly or indirectly, which are the subject of these recommendations; may buy or sell securities in the companies mentioned in the Content; may effect transactions which may not be consistent with the recommendations in the Content; may have directorships in the companies mentioned in the Content; and/or perform paid services for the companies that are the subject of such recommendations.

However, under no circumstances, has Independent Investment Research been influenced, either directly or indirectly, in making any recommendations contained on this web site.

### Corporate Research

Independent Investment Research has or may have, received a fee either directly by a company itself or by a third party, to provide coverage and/or corporate research (the "Fee"). Where a Fee has been received, Independent Investment Research does not publish:

Buy / Hold / Sell recommendations for the security or managed investment schemes.

## (c) Copyright Protection

All Content at this web site is protected by copyright. Apart from any use permitted under the Copyright Act (Cth) 1968, you must not copy, frame, modify, transmit or distribute the material at this web site, without seeking the prior written consent of the copyright owner. Content on this web site is owned by the business Independent Investment Research. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

Copyright 2010 Independent Investment Research. All rights reserved.

## (d) Trade Marks

The trade marks and logos displayed on this web site belong to Independent Investment Research or other parties. Such trade marks include registered trade marks and trade marks pending registration. Users are prohibited from using any of these trade marks, without seeking the prior written consent of IIR or such third party, which may own the trade mark content on this web site.

## (e) Limitation of Liability

To the fullest extent permitted by the law, Independent Investment Research and any of its officers, employees, agents, consultants or related bodies corporate disclaim any liability, whether based in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential or special damages arising out of or in any way connected with the use of any Content made available on this web site by any person or entity.

## (f) No Warranties

Independent Investment Research does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content made available on this web site. All information on this web site is provided to you on an as is basis, without warranty of any kind either express or implied. To the extent that research can be provided by third parties, Independent Investment Research makes no warranty or representation as to the accuracy or completeness of such information displayed on this site, and accepts no liability for errors or omissions arising from such third party information. To the fullest extent permitted by law, under no circumstances will Independent Investment Research be liable for any loss or damage caused by users reliance upon information obtained through this web site. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other content made available through this web site. Furthermore, Independent Investment Research does not warrant or represent that this web site is error free or free from viruses or defects. A user must do all that is necessary (including using virus checking software) to satisfy itself that accessing this website will not adversely affect its system.

For further information, please contact IIR at: [client.services@independentresearch.com.au](mailto:client.services@independentresearch.com.au)



**Independent Investment Research (Aust.) Pty Limited**

**SYDNEY OFFICE**

Level 1, 350 George Street  
Sydney NSW 2000  
Phone: +61 2 8001 6693  
Main Fax: +61 2 8072 2170  
ABN 11 152 172 079

**MELBOURNE OFFICE**

Level 7, 20–22 Albert Road  
South Melbourne VIC 3205  
Phone: +61 3 8678 1766  
Main Fax: +61 3 8678 1826

**HONG KONG OFFICE**

1303 COFCO Tower  
262 Gloucester Road  
Causeway Bay, Hong Kong

**DENVER OFFICE**

200 Quebec Street  
300-111, Denver Colorado USA  
Phone: +1 161 412 444 724

**MAILING ADDRESS**

PO Box H297 Australia Square  
NSW 1215