



## In this issue

- **02** Board's vision for the future
- **03** Market wrap
- **04** Investment Objectives & Process
- **05** What is a Listed Investment Company?
- **05** What we offer to shareholders
- **06** Performance
- **07** Dividends
- **08** A step back in time – markets moving in lockstep with the mid 1970's
- **12** A closer look at our holdings
- **14** Portfolio Summary as at 30 June 2010

## Dear shareholder

Welcome to our latest Investor Newsletter for the year to 30 June 2010. Our newsletters along with our bi-annual roadshows, monthly NTA announcements and regular audio casts posted on our website are designed to provide our shareholders with additional insights on some of our investments and the stock market in general. One of our main objectives for the coming year is to increase communication levels with our shareholders through regular emails and audio casts. We encourage you to register or update your email address at [info@wami.com.au](mailto:info@wami.com.au)

We trust you enjoy this current edition and always welcome your feedback and comments.

Regards,

A handwritten signature in black ink, appearing to read 'Geoff Wilson', with a long horizontal line extending to the right.

**Geoff Wilson, Chairman**  
**WAM Capital Limited**

# The Board's vision for the future

WAM Capital Limited (WAM) has grown its market capitalisation by 6.5 times since listing back in August 1999.

It is the objective of the Board and management to continue to grow WAM while continuing to achieve the group's stated goal of achieving investment performance of approximately 15 per cent a year. Some years should see the performance exceed 15 per cent while others, such as in 2008, the return may fall short. To date the average performance before all fees and costs has averaged 18.8 per cent a year. The other stated objective for the company is to deliver shareholders a rising stream of fully franked dividends.

The ability to pay fully franked dividends every six months has recently been made more obtainable by the Federal Government's decision to amend the Corporation Act regarding the payment of dividends. Previously, company's were restricted to paying dividends from retained earnings and/or profits from the financial year. As WAM is classified as a trader for tax purposes by the ATO, this made it difficult in periods such as 2008 when its retained earnings were wiped out in the market downturn. This rule has now been changed and a company can pay a dividend if the Directors believe the company is solvent according to the respective tests put in place. For WAM this should see

the company pay a dividend every six months without having to worry about a market collapse such as in 2008. This has cemented the Board's policy of paying a rising stream of fully franked dividends each year.

In the 11 years it has been listed, the company has paid and announced \$1.18 of fully franked dividends to shareholders.

Over the 11 years WAM has paid income to shareholders either by fully franked dividends or capital return, on their initial investment at a minimum 8% per annum up to a peak payout of 16% fully franked.

The way we grow WAM in this environment is being carefully considered. All avenues are being considered including changes to the dividend re-investment plan, light rights issues and the previously preferred methods of option issues.

## Market wrap

This half has been marked by volatility for the Australian share market, with the S&P/ASX All Ordinaries Index trading in a 700 point range between 5023 and 4325.

Since reaching its high on 15 April 2010, the market has been in a downward trend, seeing the Australian market close below its May 2010 lows at the conclusion of the first half.

We are of the view that this recent sell off is not simply a correction in a bull market but rather the market will continue to struggle in the coming months. While we can expect to see some sharp rallies, these are unlikely to be sustained and the downward trend of the overall market will continue into the second half of 2010.

We are also cautious of potential catalysts that could spook the market and send it lower; the most pertinent being the uncertainty surrounding the US recovery and fears of deflation.

In the US, consumer confidence data has been weak with consumers and small businesses maintaining their reluctance to spend. The big risk for the US is a deflationary environment, and with the April Consumer Price Index number of -0.1% and May -0.2% the likelihood of this occurring is increasing. With interest rates close to zero, fiscal policy is the only means of stimulating the US economy. The US has openly stated it will continue with its current policy of economic stimulus and will not implement any form of restrictive fiscal policy to reign in spending like what is occurring in Europe and the UK.

China's economy which is showing signs of softening after its strong stimulus fuelled recovery last year is another risk for our market. Industrial production and other key indicators show the pace of growth is slowing in China, however it is slowing from a very strong level with the World Bank still predicting 9.5% growth for this year and 8.5% for 2011. The effects of an appreciation of the yuan also remain to be seen. It is expected that China will aim to increase domestic demand to substitute any reduction in export volumes from this appreciation.

The third major risk is the European sovereign debt crisis and surrounding austerity measures. While the problems in Greece have been well publicised, there is also the risk that other countries in the Eurozone may fall to the same fate. The most likely of these is Spain due to its high unemployment level (currently above 20%) and the weak growth prospects of its fragile economy. At the time of writing, Moody's was reviewing Spain's AAA rating. To combat these risks the European Central Bank has implemented a series of measures aimed at reducing the volatility and improving liquidity. However, interest and insurance rates on Greek bonds have both hit record highs since the announcement showing the market is still not comfortable with the outlook for Greece.

On the home front, the biggest news item affecting the market was no doubt the controversial proposed Resource Super Profit Tax (RSPT). Over May and June this got a lot of media coverage and was no doubt a contributing factor to the change in leadership and ousting of Kevin Rudd as Prime Minister. While our focus is predominantly industrials not resources, the knock on affect to resource service companies which we invest in, is undoubtedly negative. We believe the tax is an opportunistic tax grab at a sector that has been a strong driver of Australia's economic growth over the past decade. We believe the tax will also result in government revenue becoming a lot more cyclical. There will be high inflows when global growth and resource prices are high and minimal inflows when global growth and resource price are low.

The half also saw the impact of the six interest rate rises and the cycling of the government stimulus package which was distributed in the first half of 2009. The most affected sector was retail which had very soft numbers over the period, clearly showing that consumers were feeling the pinch and were holding back on spending.

*“We are of the view that this recent sell off is not simply a correction in a bull market but rather the market will continue to struggle in the coming months.”*

In late July and August we will enter the Australian reporting season where companies report their results and provide outlook statements for the financial year ahead. We are of the opinion that the outlook statements are likely to be below analyst's expectations which may lead to them downgrading FY11 numbers which we believe are too high. While we see the market moving lower in the short term, we believe this will present investors with opportunities to establish positions in quality stocks on low multiples. While it will be hard to pick the bottom and this strategy may experience short term pain we believe it will put investors in a good position going forward when the market does eventually turn around.

# Investment Objectives & Process

Our investment objectives are to achieve a high real rate of return, comprising both income and capital growth, within risk parameters acceptable to the Directors and to preserve the capital of the Company.

Our investment process focuses on:

**(a) Research Driven investing:**

We undertake extensive research, focusing on free cashflow then rating the company with respect to management, earnings growth potential, valuation and industry position. We only buy when we can identify a catalyst or an event that will change the valuation the market gives to the company.

**(b) Market Driven investing:**

We scour the market for trading opportunities. These could include participating in initial public offerings, placements, block trades, rights issues, corporate transactions (such as takeovers, mergers, schemes of arrangements, corporate spin-offs, restructurings), arbitrage opportunities, LIC discount arbitrages or relative value arbitrages. This part of the portfolio is traded actively.

In the Research Driven part of the portfolio we do not favour investing in mining companies due to the high risk nature of mining businesses and the volatility of revenues. This does not apply to the Market Driven part of the portfolio where we are looking for trading opportunities.

**WAM Capital Ltd vs S&P/ASX All Ordinaries Accumulation Index, S&P/ASX Small Ordinaries Accumulation Index and S&P/ASX Small Industrials Accumulation Index to 30 June 2010**



# What is a Listed Investment Company?

A Listed Investment Company (LIC) is a closed end pool of capital that invests in the stock market.

By closed end we mean that if an investor wants to leave the fund, he or she sells shares to another investor coming into the company rather than withdrawing money from the fund. Effectively, no money leaves the fund and only the shareholding changes.

We believe that a closed end fund is a superior structure to managed fund/unit trust structures. With closed end funds or LIC's, the manager of the fund does not have to sell stocks in the portfolio to raise cash for a departing investor. That means investment decisions are based on the fundamentals of the companies the manager invests in, rather than money flow via redemptions.

Most other funds, like managed funds and mutual funds, are open ended. This means that when an investor wants to leave the fund the manager is

forced to liquidate stocks to finance the redemption. This places pressure on the manager who has to put fundamental investing to the side while he or she manages the cashflows.

Invariably, most investors depart a fund when stocks have fallen significantly, which historically has proven to be the best time to buy. This means the manager may have to sell companies which they believe represent good value.

At the other end of the scale, most money pours into the market and open end funds, when stock prices are soaring in a bull market. The manager may then be forced to buy companies at inflated prices. This type of momentum investing can cause a serious destruction of capital when the bull market ends.

As a LIC is a closed end fund it does not have any of these problems which can be of significant advantage and benefit to the investor.

LIC's are unique investment vehicles because they can trade at a discount or premium to the assets that they own. When investors want to take their money out of LIC's, selling may result in the share price falling below the value of its assets (or NTA). We refer to this as trading at a discount to NTA. This can provide a great buying opportunity. On the other hand, when investors are buying shares in LIC's, the share price may trade higher than the value of the assets it owns (or NTA). This is referred to as trading at a premium to NTA. This can provide a selling opportunity.

## What we offer to shareholders

### Style

- A flat structure that delivers quick decision making
- A nimble investment process due to the relatively small funds under management
- A broad coverage of a range of industries, especially at the small to medium end of the market
- An aversion to risk with above average cash positions
- Over 50 years of experience in the Australian share market with a high degree of street smarts

### Structure

- Closed end funds avoiding the problem of being forced sellers and buyers at inappropriate times
- An active research driven approach that involves staying very close to the market and an in depth analysis of investee companies

# Performance

For the 12 months to 30 June 2010 the WAM gross portfolio increased 29.8%, while the S&P/ASX All Ordinaries Accumulation Index increased by 13.8%, the S&P/ASX Small Ordinaries Accumulation Index increased 11.2% and the S&P/ASX Small Industrials Accumulation Index increased 10.3%. The after tax NTA, excluding tax assets and adjusted for dividends, increased 26.8% while the share price, adjusted for dividends rose 24.7% for the 12 months to 30 June 2010.

## Research Driven

The research portion of the portfolio performed solidly over the 12 months with the top performing research stocks achieving gains of Reckon Limited 77.5%, McMillan Shakespeare Limited 60.6%, REA Group Limited 79.3% and Orotan Group Limited 100.6% compared to an increase of 13.8% for the S&P/ASX All Ordinaries Accumulation Index. During the second half of the financial year it proved difficult to find quality research stocks to add to the portfolio. Only three new stocks were added to the research portion of the portfolio over the six month period to 30 June 2010: The Reject Shop, Blackmores and MyState. While there are many companies trading on low multiples, we believe the earnings for 2011 are overstated by analysts. This may provide opportunities to establish positions in quality companies at lower

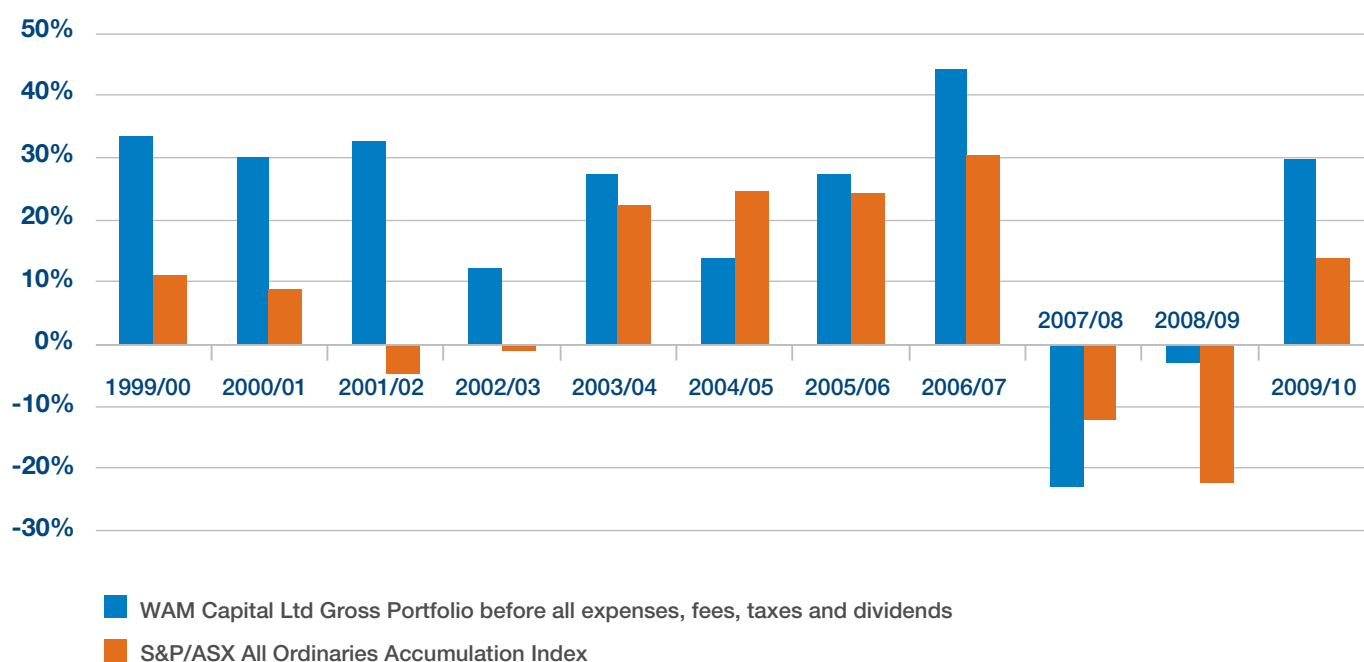
levels. With the reduction in investment opportunities and bearish outlook on the market the cash level of the Fund rose to 55.3% at 30 June 2010 up from 36.7% at 31 December 2009.

## Market Driven

The top contributing market driven stocks for the year were Virgin Blue Holdings Limited, Wattyl Limited, FKP Property Group and National Australia Bank Limited. The financial year was a year of two very different halves for the market drive portion of the portfolio. During the first half FY2010 the Fund participated in 122 capital raisings as companies raised money to shore up their balance sheets after making it through the worst of the GFC. In total \$100 billion was raised by Australian companies in all of 2009. In comparison in the first half of calendar year 2010 capital raisings were down heavily with issuance of just \$8.4 billion the lowest

half-year volume seen in seven years. This reduced the amount of discounted capital raisings available for the Fund to take part in, with the Fund participating in just 49 capital raisings during the period.

Entering the first half of calendar year 2010 we anticipated a strong period for M&A activity, as companies which had raised capital began to deploy it. Two of the companies which we owned in the Fund, Dexion and Wattyl, received takeover offers which contributed positively to the Funds performance. The Fund also took advantage of other takeovers, trading positions in Ammtec Limited, Ausmelt Limited, Challenger Kenedix Japan Trust and Corporate Express Limited.

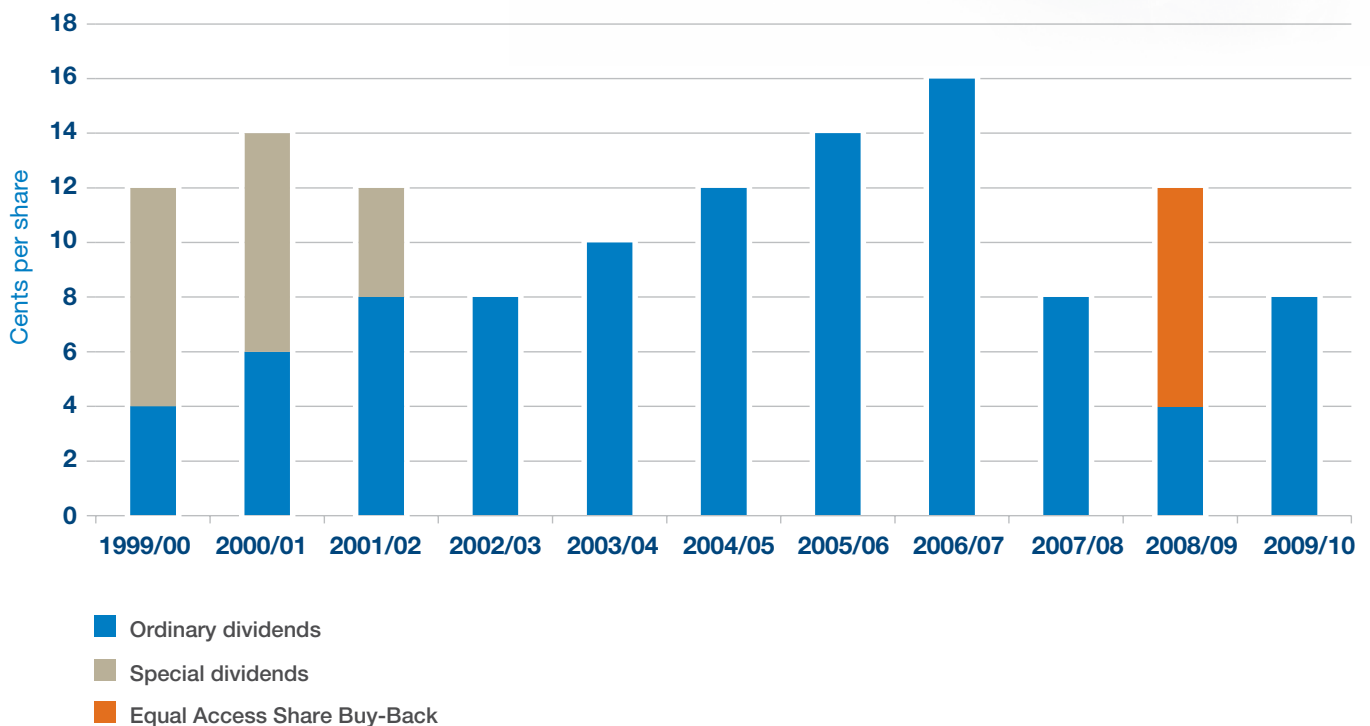


# Dividends

On 20 July 2010 the Board declared a fully franked final dividend of 4.0 cents per share to be paid on 17 September 2010. This brings the full year dividend to 8.0 cents per share fully franked. This brings the full year dividend to 8.0 cents per share fully franked.

The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the company has sufficient franking credits, and it is within prudent business practices. Dividends are paid on a six-monthly basis. Recently introduced government legislation now enables companies to pay dividends if they are deemed solvent by directors and

according to the various tests required. Dividend payments will not be reliant on reported profits and retained earnings as it was previously. Rather it will be with consideration to cashflow, cash holdings and available franking credits. Essentially, WAM Capital will always be in a position to pay dividends providing it is solvent.



# A step back in time – markets moving in lockstep with the mid 1970's

By Andrew McCauley

As we enter the third year of the current bear market there is a growing chorus of investors and commentators aggressively arguing that investors should get used to much lower returns from the share market compared to the golden period running up to November 2007.

Low single digit returns is the best you can hope for given the current global economic environment. Investors, beaten up by significant negative returns over the past 3 years are easily convinced of this unexciting world we are now entering. But should past performance be the best guide to future performance? It certainly wasn't a good guide as we looked into the future in 2007. Ironically, a more accurate way of assessing what lies ahead is to trawl back through history and see what actually happens in these troubled times. Before the current bear market the worst period for Australian shares was the 59 per cent decline from January 1973 through to December 1974.

It has been 34 months and a 34% decline since the Australian share market peaked in late 2007. In what is a remarkable consilience, the move for Australian Equities, from the January 1973 peak moving forward 33 months to October 1975, was also negative 34%. The Australian Bank Index, S&P 500, and to a lesser extent the Australian Materials Index, also partake in this concurrence.

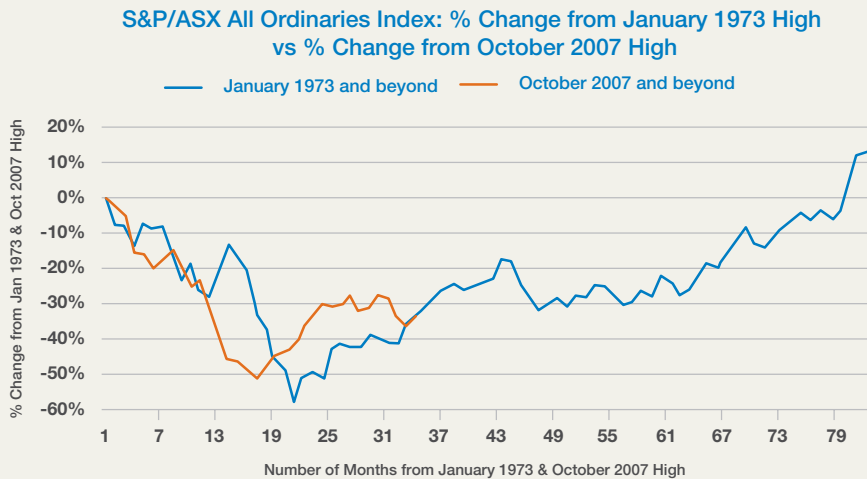
In an effort to get a handle on what may happen next it is worth perusing the Time Magazine archive to garner a real time snapshot of the prevailing sentiment approximately 2 to 3 years post the 1973 peak.

The extract below is from an article in the Time Magazine Archive (2nd Magazine Cover Above, Monday April 7, 1975) titled, The Budget: \$100 Billion Guessing Game.

**“Washington these days is playing a confusing guessing game that might be called What's Our Deficit? or perhaps Can You Top This? Ever since President Ford submitted his budget in February, estimates of the likely red-ink figure for fiscal 1976, which begins July 1, have been escalating at something like a billion-dollar-a-day pace. The President initially proposed a \$51.9 billion deficit; six weeks later the Administration upped the figure to \$55.5 billion. Earlier this month, Treasury Secretary William Simon warned that the deficit could hit \$80 billion.**

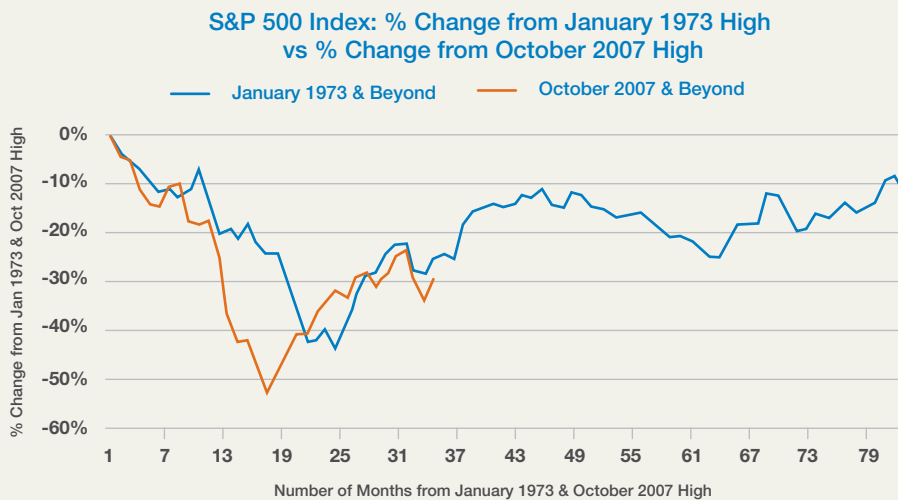
**Shock Effect. Last week the House Budget Committee estimated \$72 billion, but the Office of Management and Budget calculated that if Congress passes every proposal now before it, the figure would grow to \$100 billion or more. If that report was meant to shock Congress, it had the desired effect. The next day Maine Democrat Edmund Muskie, chairman of the Senate Budget Committee, warned his fellow Senators that “Congress is going to have to exercise great restraint to avoid overshooting the mark as we try to get our economy moving again.”**

Sounds familiar? Sentiment for the most part is similar now. So does that necessarily mean there are bad times ahead? Possibly for the economy, but not necessarily for the share market. In 1975, at the same time period of the equity market recovery (34 months from peak), US & Australian Equities recorded broad index gains of 15% plus over the next 12 months, despite the uncertain economic backdrop. The following chart of the S&P/ASX All Ordinaries Index is evidence of this remarkable consilience.



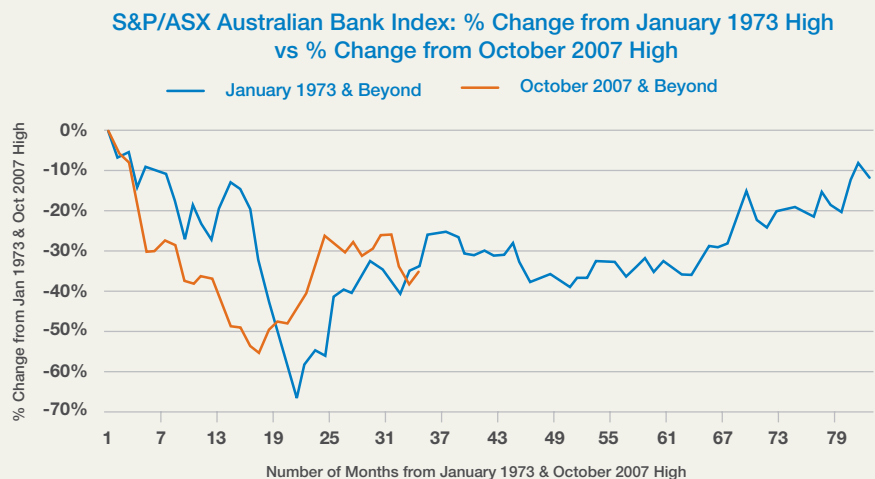
The US equity market also appears to be tracing out the mid 1970's pattern. From the December 1974 low US equity investors had to wait over 5 years to see the levels that were reached the previous high in January 1973. I note that the S&P 500 late 1974 low was never retested & I suspect that the February / March 2009 low will not be breached either.

“In 1975, at the same time period of the equity market recovery (33 months from peak), US & Australian Equities recorded broad index gains of 15% plus over the next 12 months, despite the uncertain economic backdrop.”

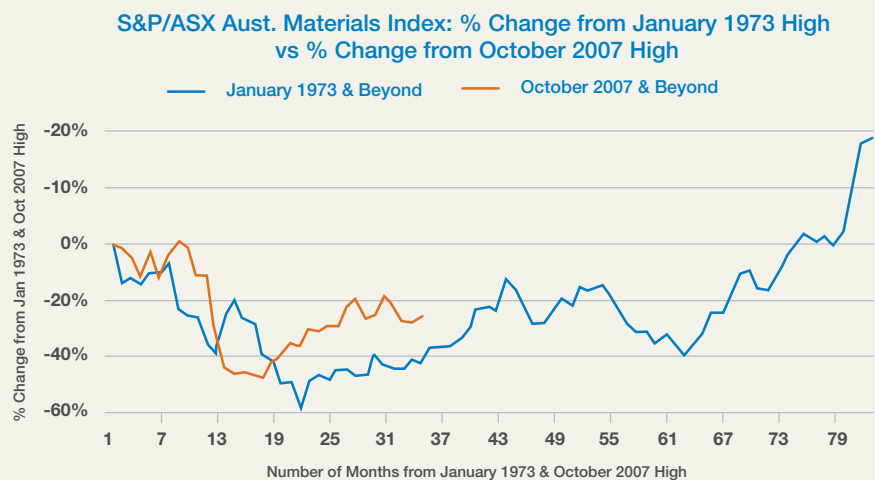


It is interesting to note that with all the talk of the worst economic climate since the Great Depression, Australian Banks in terms of share price performance, fared much worse in the mid 70's than in the recent Global Financial Crisis. However, 34 months post the respective 1973 and 2007 peaks, the performance is very similar. I note that the Bank Index from the September 1974 low took almost 6 years to move past its January 1973 level.

“Looking at the output of Time Magazine over the past year suggests that history may not repeat but at times certainly rhymes.”



I note that the Australian Materials Index was nowhere near a record high in January 1973. By that time Materials had already declined by 50% from its December 1969 high. From the 1969 peak to the trough of September 1974 the decline was 80%. You can be assured that in 1969 investors didn't see that kind of decline unfolding. **It's always the way though, the market has a tendency to provide an outcome that is contrary to what was, or might have been expected.** It can be readily observed from the following graph, that post the September 1974 low it took the Materials Index (Resources) 54 months (March 1979, 4.5 years) to better the level achieved in January 1973.



Looking at the output of Time Magazine over the past year suggests that history may not repeat but at times certainly rhymes. At times like these I'm reminded of the story of Panurge, a character from Rabelais's Gargantua & Pantagruel novels. Panurge influenced a flock of sheep to jump off a ship by throwing the lead ram overboard.

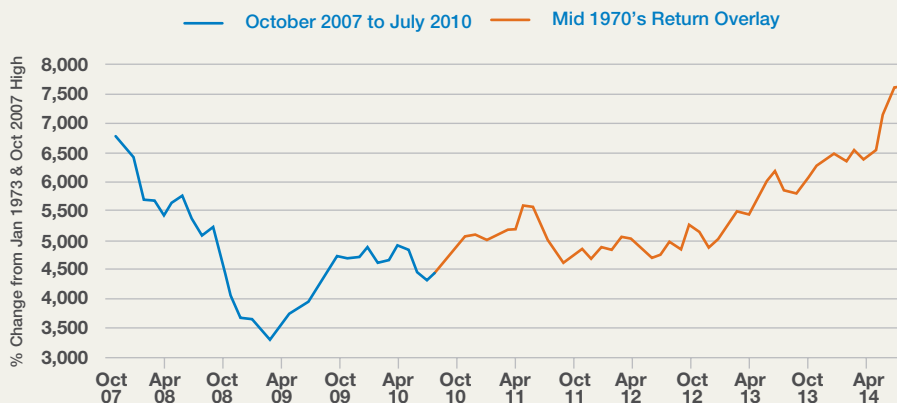
**“Suddenly, I do not know how it happened, I did not have time to think, Panurge, without another word, threw his sheep, crying and bleating, into the sea. All the other sheep, crying and bleating in the same intonation, started to throw themselves in the sea after it, all in a line. The herd was such that once one jumped, so jumped its companions. It was not possible to stop them, as you know, with sheep, it's natural to always follow the first one, wherever it may go.”**

Francois Rabelais, Pantagruel, Book IV, chapter VIII

Following the lead ram and the current media fancy is not always optimal. So what do we take from this? Be aware of the current underlying sentiment but try not to be a victim of retrospective form – look forward from these events, not back.

The chart below overlays the mid 1970's return profile of the All Ordinaries Index onto the current price level 4 years forward (5 years post Low). Our market will see record highs again, however, if we follow the mid 1970's experience, new highs are approximately 4 to 5 years away.

### S&P/ASX All Ordinaries Index: Price Forecast – Based on Mild 1970's Return Profile



If the market maintains its 1973 posture stocks are headed towards 5,200 for the S&P/ASX 200 & 1,260 for the S&P 500 within the next 12 months. After this you would expect a pullback, then a whipsaw consolidation and eventually, new highs by approximately 2014. *This roughly equates to a little over 10% per annum compound return.* Not so bad, given what we have witnessed over the last three years. In the coming years and again based on the 1973 experience, Australian equities should do a little better than US equities, with the Australian Materials Index outperforming its Banking counterpart. It seems a long way back to the top – but I guess it's better than where we have been.

It is always easy to fall into the trap of believing that the recent trend of subpar global economic output will persist indefinitely. Conditions do change and companies adapt. I think the Scottish economist Sir Alec Cairncross said it best, **“A trend is a trend is a trend. But the question is – will it bend? Will it alter its course through some unforeseen force and come to a premature end?”** Ten per cent per annum compound over the next 5 years is the calm after the storm. The trend is always changing – don't get caught behind the form. Stick with investment managers that adapt.

Andrew McCauley is Head of Quantitative & Evidence Based Research at Veritas Securities Limited.

## *A closer look at our holdings*

### Oroton Group Limited

(Research Driven)

Oroton Group (ASX code: ORL) is both a wholesaler and retailer of clothing, leather and fashion accessories.

The group consists of two core brands being Oroton and Polo Ralph Lauren. The Oroton brand is most commonly found in the company's network of 46 retail stores around Australia. Oroton wholesales to other retailers such as David Jones and Myer which provide another source of revenue. The Oroton Group is also the sole licensee to distribute Polo Ralph Lauren product in Australia. There are 27 Ralph Lauren stores, comprising stand alone and factory outlets.

The Oroton Group was founded in 1938 by the Lane family who remain shareholders today with a 29% stake in the company. The company floated on the Australian Stock Exchange in 1987 and today it has grown to a market capitalisation of \$270m with over 600 employees.

In 2006, current CEO Sally McDonald took charge of management and implemented a major overhaul of the business which was struggling. Her clever strategy of divesting previously owned brands Marcs and Morrissey and focusing investment on two core brands has proven successful to date. We hold the Oroton senior management team in high regard, a key factor in our rating process for research driven investments.

We began our investigation into Oroton in early 2007. Through several visits at the companies head office during 2007-2009 with senior management we realised a turnaround was in place. Our view of Sally McDonald was growing as evidence slowly appeared that the turnaround was gathering momentum.

After these meetings we "rated" the company using our investment template, scoring management, earnings growth and industry position. The investment fundamentals were outstanding. At the time, Oroton was trading on a price to earnings ratio of 5.7x, dividend yield of 12% and EPS growth of 15%. These types of opportunities were rife during early 2009. Oroton stood out from the pack with no debt and high levels of free cashflow.

The key barrier for investment was the liquidity of the stock, essentially making it hard for the Fund to build a meaningful position in the company. In early July 2009 we bought our position with another investor forced to sell due to Fund redemptions. During this period and the previous months it was common to see forced sellers of stock. We established a position at an average price of \$3.07 which was well below the last market price of \$3.20 at the time. At the time of writing Oroton shares are trading at \$6.68.

# OROTON

Oroton delivers extremely high returns on equity when compared to its Australian listed retailing peers. Returns in excess of 70% have not been uncommon for this business. This compares very favourably with other listed peers including the highly successful JB Hi-Fi whose return on equity is 45%. The company achieves these high levels of return from the higher margin it achieves on product sales. Returns are also assisted from the companies store refurbishment program where higher sales are generated from improvements to the store layout.

Currently Oroton has 73 stores which will approach 100 over the next few years. We remain favourably disposed to Oroton with its valuation still attractive. Today the stock is on a price to earnings ratio of 10x with a dividend yield of 7.8%. Growth will be driven in the next few years from store refurbishments and new product categories such as lingerie and underwear. The major catalyst for the stock includes potential acquisition opportunities both onshore and abroad of which the company has flagged that strict financial hurdles apply.

# Wattyl Limited

## (Market Driven)

Wattyl (ASX Code: WYL) is one of Australia's three major paint manufactures. The group is a leader in outdoor products with Solargard its flagship brand.



Overall, Wattyl has approximately 30 per cent of the total Australian paint market, ranking second behind the Dulux group, which is currently being spun off by its parent Orica. Despite a strong market share and well known brand name, Wattyl has failed to perform in recent years due to poor management and tough trading conditions. This poor performance is best measured by the group's earnings before interest and tax margin falling to just 2 per cent of sales, compared to the 12 per cent margin printed by rival Dulux in recent years. As a result of this underperformance the company's share price plummeted from a high of \$3.50 in April 2007 to just 38c a share in February 2009.

WAM Capital began buying Wattyl shares in June 2009, at around 60c each. There were several reasons for buying the stock. The overriding motivation was the fact Wattyl's share price was trading at less than half the company's stated asset backing of \$1.46 a share. The company had also managed to extend its banking facilities, despite breaching banking covenants the previous year. To accelerate the amortisation of the new debt facility, Wattyl managed to sell several of the properties it owned, significantly reducing the likelihood of a further breach. When WAM Capital starting buying shares in Wattyl the company was still struggling operationally, however, the chances of a corporate

collapse were subsiding. Under this scenario we believed the shares were worth substantially more, possibly as much as the stated asset backing.

In the midst of its debt crises, Wattyl also implemented a new management team. In June 2009 Emmanuel Zammit was appointed Chief Financial Officer and in October 2009 Tony Dragicevich was made the new Managing Director. Both men came highly credentialed with Dragicevich previously holding down senior management roles at GWA International and Carter Holt Harvey. We held several meetings with the new management team and became increasingly comfortable with the new strategy to revive the group's earnings and profit margins. Over time we bought 1.69 million shares in the group at an average price of 79c a share.

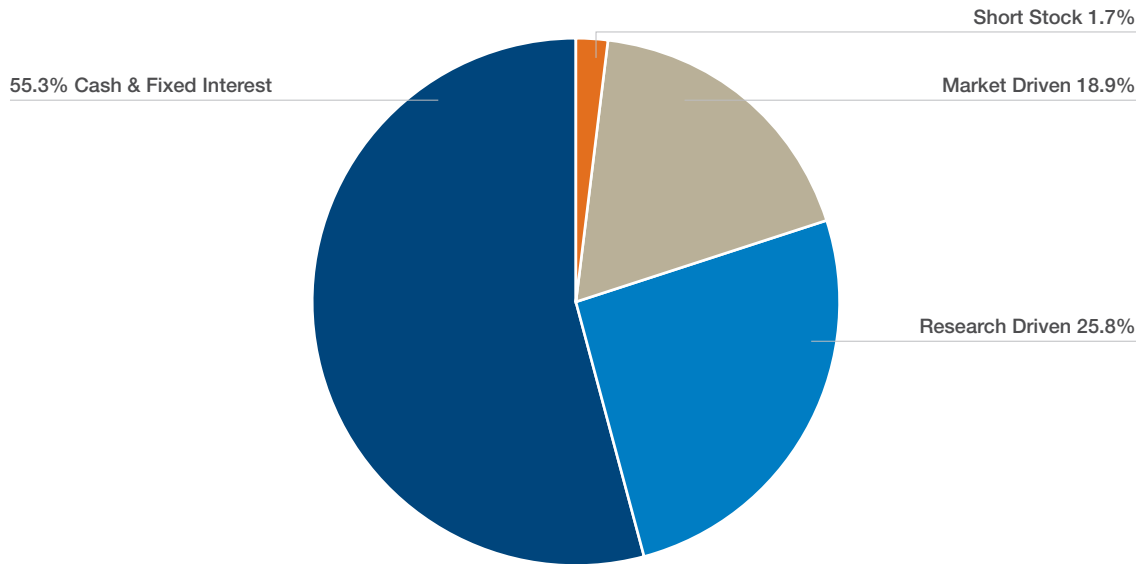
The new management team, helped along by previous cost cutting and a revised strategy, announced upgraded earnings for the year to June 30, 2010. On the back of these announcements the stock managed to track gently higher, briefly climbing above \$1.00. For the stock to reach its stated net asset backing of \$1.46 a share the management needed to improve several aspects of the business that would take another number of years to achieve. Among these were poor relationships with the major hardware retailers, an inefficient supply chain and an overhaul of the group's fully owned trade outlets.

In late May, 2010 Wattyl received an approach from a foreign company to buy all of the company's shares at \$1.30 each. It was later revealed the foreign company was US based Valspar, who is the largest supplier of paint to US hardware group Lowes. The decision to move on Wattyl stemmed from Lowes announcement in 2009 of a joint venture with Woolworths to roll out a series of big box hardware stores across Australia. Wattyl shareholders seemed reluctant to accept \$1.30 a share since it was below the stated asset backing. In June 2010, Valspar officially offered a takeover price of \$1.67 a share. This bid received the support of the Wattyl board and at the time of writing this article it is expected to succeed. Unless there is a higher bid we are also happy to accept the bid.

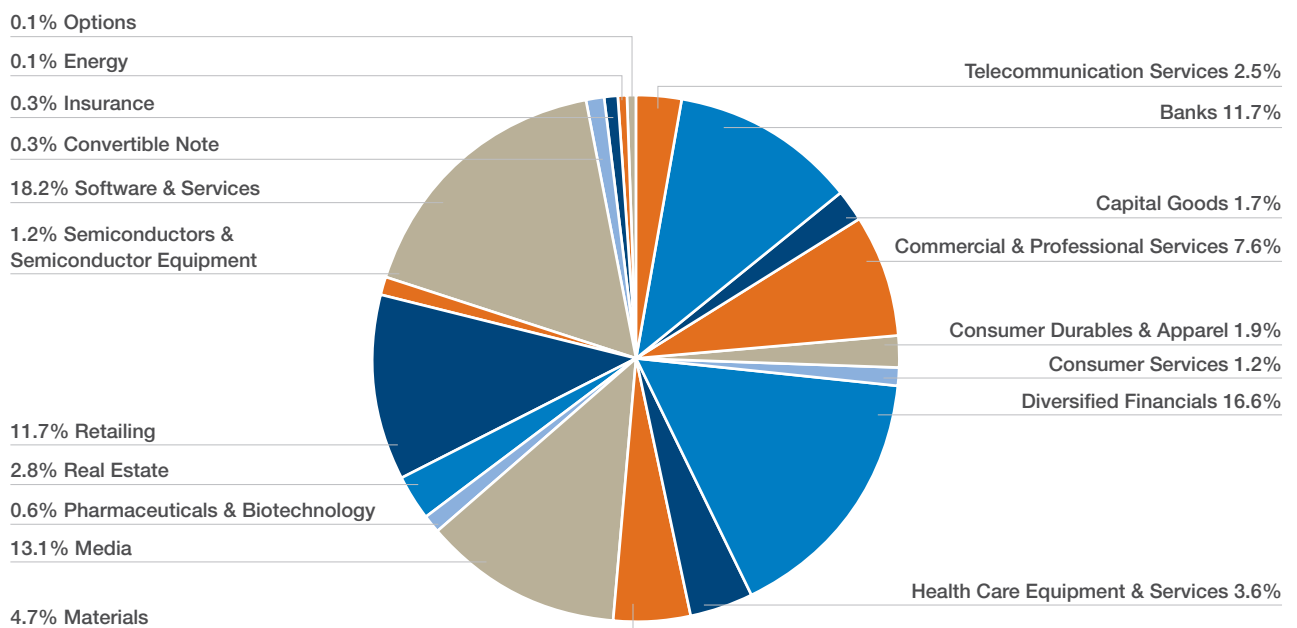
This investment was a market driven investment for WAM Capital based primarily on the asset backing of the company and the debt reduction program undertaken.

# Portfolio Summary as at June 2010

## Portfolio Asset Allocation



## Long Portfolio Sector Allocation



## Top 10 Research Stocks as at 30 June 2010

ASX Code	Company Name	Sector	Market Value \$m	% of Gross Portfolio
RKN	Reckon Limited	Software & Services	8.3	5.0%
MMS	McMillan Shakespeare Limited	Commercial & Professional Services	4.1	2.5%
REA	REA Group Limited	Media	3.2	1.9%
ORL	Oroton Group Limited	Retailing	2.8	1.7%
MYS	Mystate Limited	Banks	2.6	1.6%
MCU	Mitchell Communications Group Limited	Media	2.4	1.5%
IRE	IRESS Market Technology Limited	Software & Services	2.3	1.4%
SGN	STW Communications Group Limited	Media	2.3	1.4%
AHE	Automotive Holdings Group Limited	Retailing	1.9	1.1%
TGA	Thorn Group Limited	Retailing	1.9	1.1%

## Top 10 Market Driven Stocks as at 30 June 2010

ASX Code	Company Name	Sector	Market Value \$m	% of Gross Portfolio
RHG	RHG Limited	Banks	3.0	1.8%
WYL	Wattyl Limited	Materials	2.8	1.7%
NAB	National Australia Bank Limited	Banks	2.3	1.4%
VTP	Van Eyk Three Pillars Limited	Diversified Financials	1.8	1.1%
CIW	Clime Investment Management Limited	Diversified Financials	1.6	1.0%
HSP	Healthscope Limited	Health Care Equipment & Services	1.5	0.9%
MCP	McPherson's Limited	Consumer Durables & Apparel	1.4	0.9%
SGI	Signature Capital Investments Limited	Diversified Financials	1.4	0.8%
PXUPA	PaperlinX SPS Trust Preference Share	Diversified Financials	1.3	0.8%
ITX	ITX Group Limited	Software & Services	1.2	0.7%

## Best Performing Stocks year to 30 June 2010

ASX Code	Company Name	Sector	Unrealised/ Realised Gains
RKN	Reckon Limited	Software & Services	\$4,293,952
ORL	Oroton Group Limited	Retailing	\$2,083,400
MMS	McMillan Shakespeare Limited	Commercial & Professional Services	\$1,732,462
MCP	McPherson's Limited	Consumer Durables & Apparel	\$1,587,378
VBA	Virgin Blue Holdings Limited	Transportation	\$1,449,135

## Worst Performing Stocks year to 30 June 2010

ASX Code	Company Name	Sector	Unrealised/ Realised Losses
ALS	Alesco Corporation Limited	Capital Goods	(\$688,541)
PBP	Probiotec Limited	Pharmaceuticals & Biotechnology	(\$665,977)
BOL	Boom Logistics Limited	Capital Goods	(\$576,005)
CPR	Clive Peeters Limited	Retailing	(\$516,191)
MVU	Matrixview Limited	Software & Services	(\$412,709)

Wilson Asset Management is an independently owned boutique investment manager established in November 1997 by Geoff Wilson and joined by Matthew Kidman in mid 1998. Wilson Asset Management is based in Sydney, Australia.

The Wilson Asset Management Group (WAM Group) employs four investment professionals who have a total investment experience of over 50 years.

At June 2010, the WAM Group was the manager of three listed investment companies with funds under management of approximately \$310 million. The group also manages an unlisted fund.

In August 1999 the first of the three listed companies, WAM Capital Limited (WAM), was established and has grown from \$21.5 million to approximately \$170 million today. WAM focuses on investing in small to medium sized companies listed on the Australian Securities Exchange for the short to medium term.

In August 2003 the second listed investment company, Wilson Investment Fund Limited (WIL), was established with approximately \$161 million raised. WIL focuses on investing in small to medium sized companies listed on the Australian Securities Exchange.

WAM Active Limited (WAA) is the most recent addition to the group which was listed in January 2008 with approximately \$15 million raised. WAA is an active investor with high turnover and a focus on absolute returns.

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