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Dear Shareholder,

In what has been a challenging six months for equity markets, I am pleased all three of our Listed Investment Companies (WAM, WAX and WAA) were able to increase their fully franked dividend by around 10%. As a Board and Investment Manager, we continue to focus on delivering a growing stream of fully franked dividends to our shareholders.

I would also like to bring to your attention that WAM Capital has been put on the approved product list of the Association of Independently Owned Financial Planners (AIOFP).

A topic being talked about in the market at the moment is the long awaited float of Facebook. The valuation is expected to be between \$US80 billion and \$US100 billion. I am fascinated that the human desire to belong and be connected could deliver such paper wealth in such a short period of time. In my view, the floating of Facebook signals close to a top for its valuation.

In this newsletter we discuss a topic that we are frequently asked about by our shareholders – The Australian Banks. We have outlined the current dynamics in the Australian Banking Industry and try to answer the question: 'Are they a sound investment?'

On a lighter note, we have also included a whimsical article from the Sydney Morning Herald stating that 'Intelligent people own shares'.

I hope you enjoy reading this issue of our newsletter and I look forward to seeing you at the upcoming Investor Roadshows in May.

Thank you for supporting us.

Geoff Wilson, Chairman
WAM Capital Limited

Australian Banks – Are they a sound investment?

Australian bank shares currently offer a historic dividend yield of approximately 7% per annum which is fully franked. This is a very attractive dividend yield, if it is sustainable and if bank earnings can at least be maintained throughout the next cycle.

Investors are questioning the sustainability of bank dividends in this post-Global Financial Crisis (GFC) world and are now asking if the banks will ever return to their former glory days as powerful earnings growth engines. The distress in Europe has only heightened investor concerns further and led to more risk aversion.

In this feature article we examine the status and prospects of the Australian banks.

Australian banks are indeed facing a number of headwinds

Australian banks today face a variety of difficult headwinds that haven't generally confronted the sector in the past 20 years. Credit growth in Australia has been slowing and is now trending at very low levels. Home lending grew by only 5% in 2011 which is a record low level of growth and business credit in Australia is even softer and is not growing much, if at all.

At the same time, banks around the world are also facing higher regulatory imposts around capital and liquidity under the new Basel III requirements. APRA is implementing tougher requirements in Australia to reflect these Basel III requirements, and APRA's standards will no doubt be at least as tough as any regulatory regime overseas.

Investors are becoming increasingly concerned about the risks facing banks in Australia

Share market investors have become very concerned that the Australian banks rely heavily on wholesale funding offshore. Concerns have been heightened since the onset of the European debt crisis last year and there is a real concern that the Australian banks' funding could be threatened by a collapse of European debt markets.

There is an increased realisation that the current levels of offshore wholesale debt by the banks represents a significant risk to bank balance sheets in any future crisis period.

Investors are also concerned that a downswing in global economic conditions could bring a second wave of bad debts for domestic banks in Australia. The largest asset class exposure is residential mortgages, and there is a concern that home affordability is problematic in Australia, with a very high ratio of house prices to median income. Investors highlight the risk of residential mortgage distress with particular overseas perceptions of an Australian housing bubble.

Any major collapse in residential house prices would threaten the asset quality of the Australian banks.

However, Australian house prices have been resilient for the last 30 years despite a number of difficult economic environments. Theoretically, such a failure would only occur in the event of high levels of unemployment combined with rising interest rates, so this scenario would appear to be quite unlikely in the current environment, but can't be ruled out in the long term.

On the positive side of the bank outlook, we note that:

- (a) credit quality has never been stronger;
- (b) provisioning for impaired loans is very prudent; and
- (c) capital adequacy levels are very strong.

Old model of Australian banks transformed to a new paradigm

Following the deregulation of the banks in the 1980's, the banking system in Australia enjoyed rapid credit growth and the Australian banks generated exceptional profitability with very high return on equity of 20% or more consistently for over a decade. The banks were keen to facilitate strong credit growth and they achieved exceptionally high credit growth at double digit levels, close to 14% per annum.

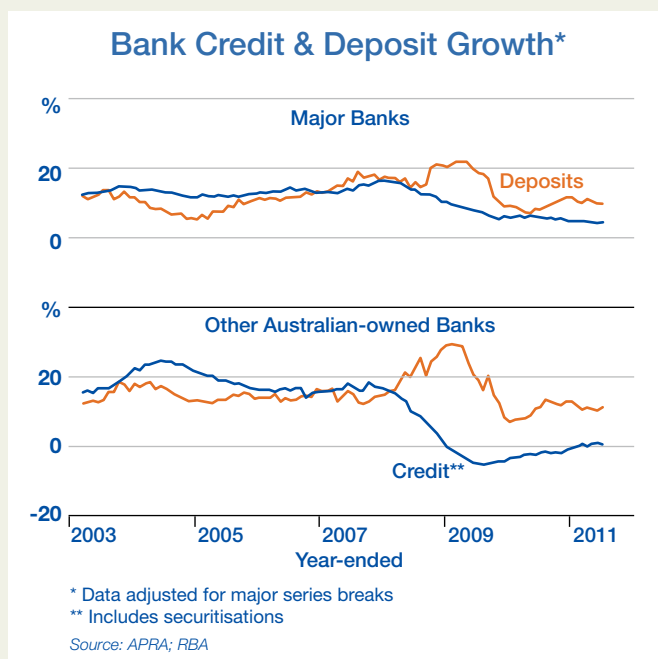
But this rapid credit growth couldn't be internally financed by customer bank deposits and the banks therefore sought additional external funding from wholesale sources, particularly from overseas lenders.

After the onset of the GFC, the availability of overseas debt dried up and customer lending growth slowed dramatically, and so the banks have found themselves facing a challenging new era of customer deleveraging. Both business and retail customers have sought to improve their own balance sheets and have been reluctant to borrow and have tended to repay existing loans.

There has been a step change in wholesale funding costs and the banks have been forced to suddenly reduce their reliance on wholesale funding, which has become more expensive and more challenging to place. The banks have offset the higher wholesale funding costs with higher lending spreads on loans, and both retail and business loans have been significantly repriced upwards.

As mentioned, the Australian banks now face much tougher scrutiny and increased regulatory requirements in regard to capital, funding and liquidity.

Credit growth for the major banks has continued to slow since the GFC, with no evidence of any pipeline of lending growth re-emerging on either residential mortgages or business. However, deposit growth has stepped up and has been exceeding credit growth, which significantly helps to alleviate the banks' funding requirements.



Banks are still overly reliant on wholesale funding

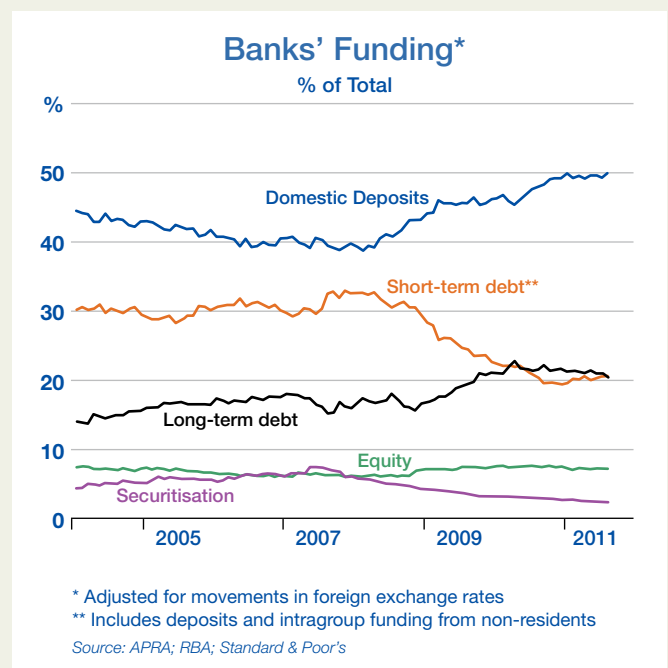
The Australian major banks have a structural weakness in their heavy reliance on overseas debt markets. This could leave the Australian banks exposed to a funding, and potentially a liquidity problem if wholesale debt markets became closed for a prolonged period, as during the depths of the GFC.

We highlight in the following chart that the major Australian banks have indeed improved their funding mix since the GFC with domestic deposits increasing from around 40% to about 50% of funding. Moreover the banks have all lengthened the term profile of the funding maturities so they face fewer maturities in any given period. Nonetheless the banks still rely on wholesale debt markets for around 40% of funds that they lend to customers.

The majority of their wholesale funding is sourced overseas and a significant amount has traditionally been sourced from European investors and banks. The sovereign debt crisis in Europe has increased concerns about the stability of the funding of the Australia banks.

As the global uncertainty increased last year, the Australian banks found an increased tendency for business and consumer savings, which has significantly boosted the deposit base of the Australian banks and has alleviated the overall funding task facing the banks.

In total the four major banks will need to refinance about \$100 billion of wholesale debt maturities during 2012, although this will ultimately depend on the level of deposits and savings and the level of credit growth.



Covered bonds facilitate bank funding in 2012

The covered bond market was recently enacted in Australia in October 2011, with the first covered bond issued in November 2011. This development will assist the banks in meeting their funding task. Covered bonds represent an additional credit enhancement to traditional bank debt, whereby lenders receive a pledge over a pool of high quality assets that are ring-fenced.

Investors in the covered bonds have a preferential claim on these earmarked assets and thus effectively rank higher than other creditors in the event of default. But covered bondholders also have an unsecured claim on

Australian Banks – Are they a sound investment?

(continued)

the issuing bank to meet any shortfall. Covered bonds will enable a lower cost form of borrowing for the banks and also offer investors more security than previously available to wholesale borrowers. Covered bonds will therefore alleviate the funding pressures currently facing the banks.

Note that a Federal Government Guarantee applies to retail bank deposits

In November 2008, during the depths of the GFC, the Australian Federal Government introduced an explicit and free guarantee on retail deposits issued by any authorised deposit-taking institution (ADI) in Australia.

On 1 February 2012, the maximum limit on this guarantee was reduced from \$1 million to \$250,000 and is not scheduled to expire.

Improved market structure leads to a more dominant position for the major banks

The market structure has become highly oligopolistic with the four major banks now increasingly dominating lending and deposit markets in Australia over the last few years, as a result of the following factors.

- a) In October 2008, CBA acquired BankWest and in December 2008 Westpac acquired St George Bank. BankWest and St George were the strongest regional bank competitors to the major banks.
- b) Prior to the GFC, banks in Australia faced strong competition from non-bank lenders. Due to the GFC securitisation markets closed and have yet to re-open. This has crimped the ability of non-bank lenders to source adequate funding at economic levels and has led to the demise of non-bank lenders.
- c) Regional banks are lower rated than the major banks and as a result the regional banks face a more difficult funding task. As a result, this advantages the major banks in Australia.

Conclusion

What remains to be seen is, firstly, whether the banks can maintain their historic dividend yields, and secondly, whether the banks can grow earnings and dividends over the medium term.

Will the banks ever return to become strong profit growth engines or will they simply become high yield plays that are ex growth and effectively boring utilities?

In our opinion the Australian banks offer the following compelling benefits:

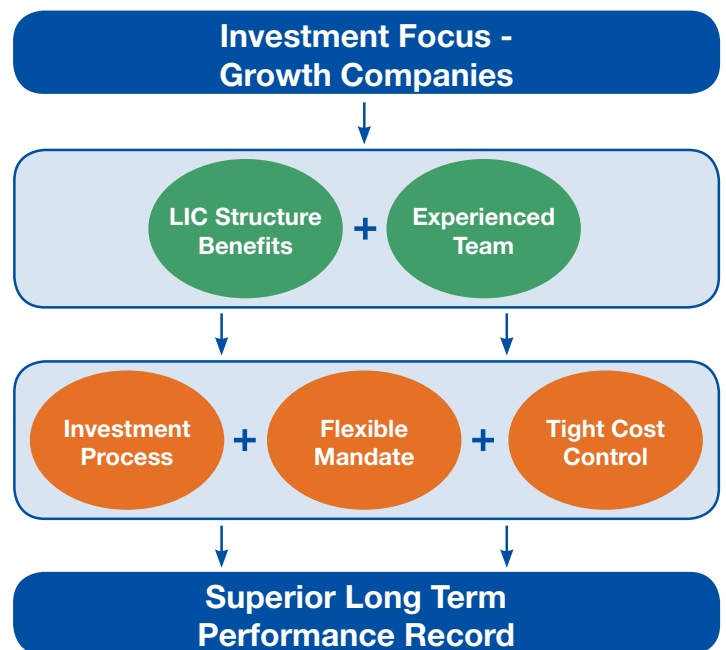
- 1. Improving Operational Efficiency.** Even in the face of low credit growth, well-managed banks will be able to maintain profits through the next cycle if asset quality is sound and if provisioning is prudent. Banks may well confront some margin pressure and face low asset growth but bank profits can be maintained if operating expenses and asset quality are tightly controlled. Bank profits, and hence dividends, will be maintainable if the bank is well managed.
- 2. Dominant Position.** The strength of their market position enables the banks to monetise their high franchise value, despite competition and ongoing political pressure.
- 3. Sustainable Yield.** Australian bank shares typically offer an attractive dividend yield of approximately 7% per annum which is fully franked. We believe this dividend yield is sustainable. Payout ratios are conservative. Banks are well positioned to maintain dividends and the current dividend yield, together with franking, represents approximately a very satisfactory 10% pre tax return to investors.
- 4. Capital Generation.** Although the banks may suffer from benign credit conditions, the low credit growth environment in the context of high return on equity means that the banks will tend to start generating significant free capital. Although APRA is now looking for all the banks to increase their regulatory capital ratios and reduce gearing, this capital generation will eventually become available for either new business investment or otherwise for potential return to shareholders by way of higher dividends or capital returns.

What Wilson Asset Management Group offers to shareholders

Funds & Investment Process



Business Model



Style

- Quick decision making resulting from a flat structure;
- Increased flexibility due to the relatively small funds under management;
- A broad coverage of various industries, especially at the small to medium end of the market;
- A focus on risk adjusted returns with above average cash positions; and
- 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 investment vehicle that delivers fully franked dividends; and
- An active Research Driven and Market Driven approach that involves staying very close to the market and an in depth analysis of investee companies (over 750 meetings with companies per year).

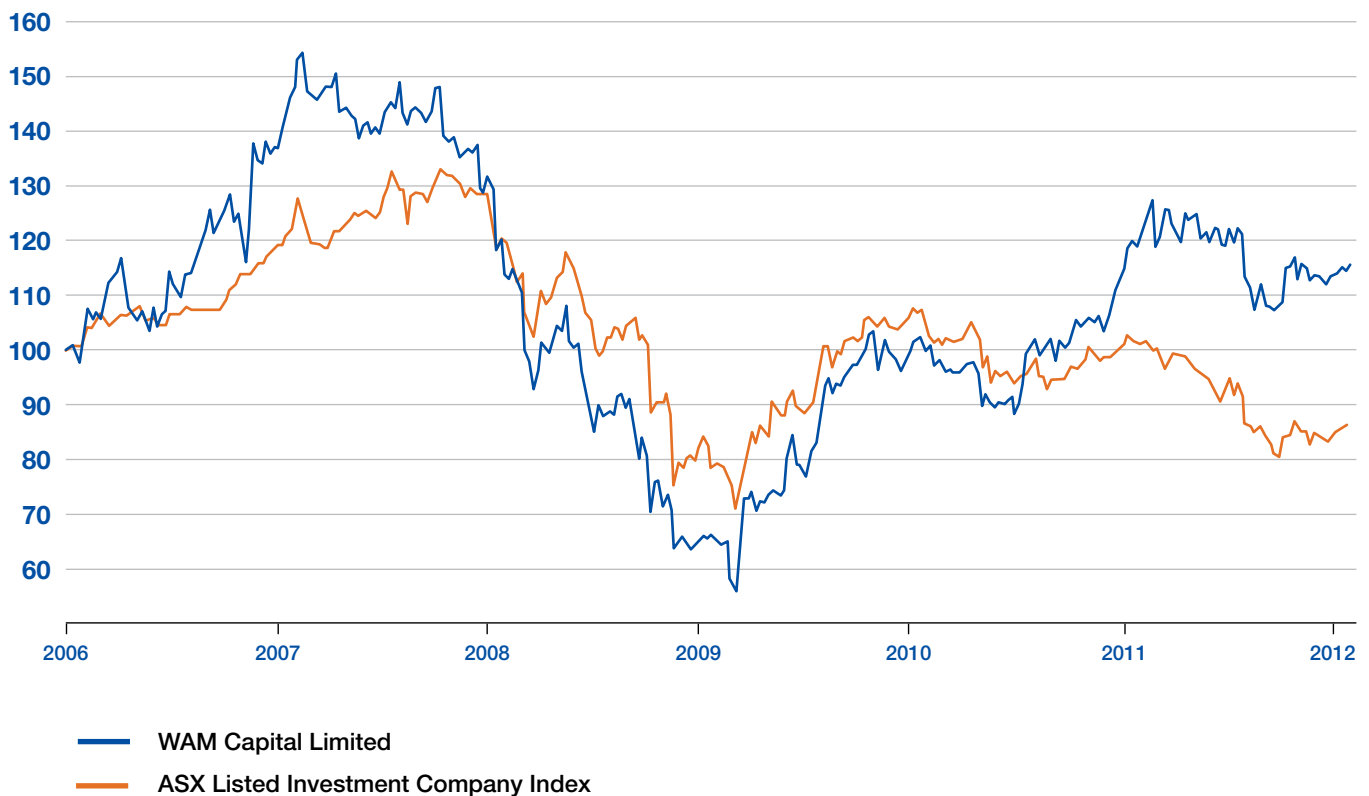
Listed Investment Company Structure Benefits

Listed Investment Companies (LICs) are structurally superior investment vehicles. Benefits include:

- They provide a diversified portfolio of assets with a range of different strategies and styles (e.g. Australian shares, international shares)
- Studies show LICs outperform managed funds*
- Closed-end pool of capital
 - Never forced seller of investments/underlying assets in difficult times
 - Never forced buyer of investments/underlying assets in bullish times
- Not beholden to short-term performance: As underlying assets cannot be withdrawn, the manager is more incentivised to deliver long term sustainable performance
- Provide consistent flow of fully franked dividends
- Lower MERs (management expense ratios) compared to managed funds
- Provide additional opportunities – LICs can trade at a premium/discount to underlying assets
- Publicly trades on an exchange (e.g. ASX) which provides intra-day liquidity for buyers and sellers
- Public companies provide more stringent corporate governance and accountability of Directors

* UK Study Source: Collins Stewart Pty Ltd

WAM Capital Limited vs ASX Listed Investment Company Index



Indicies rebased for comparison. Source: IRESS.

WAM Capital Investment Objectives & Process

The investment objectives of WAM Capital 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 (over 750 meetings with companies per year), focusing on free cash flow, then rating the company with respect to management, earnings growth potential, valuation and industry position. We buy when we can identify a catalyst or an event that will change the valuation the market gives to the company. We sell once the company reaches our valuation.

b) Market Driven investing:

we scour the market for trading opportunities. These 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, relative value arbitrages and trading market themes and trends. This part of the portfolio is traded actively.

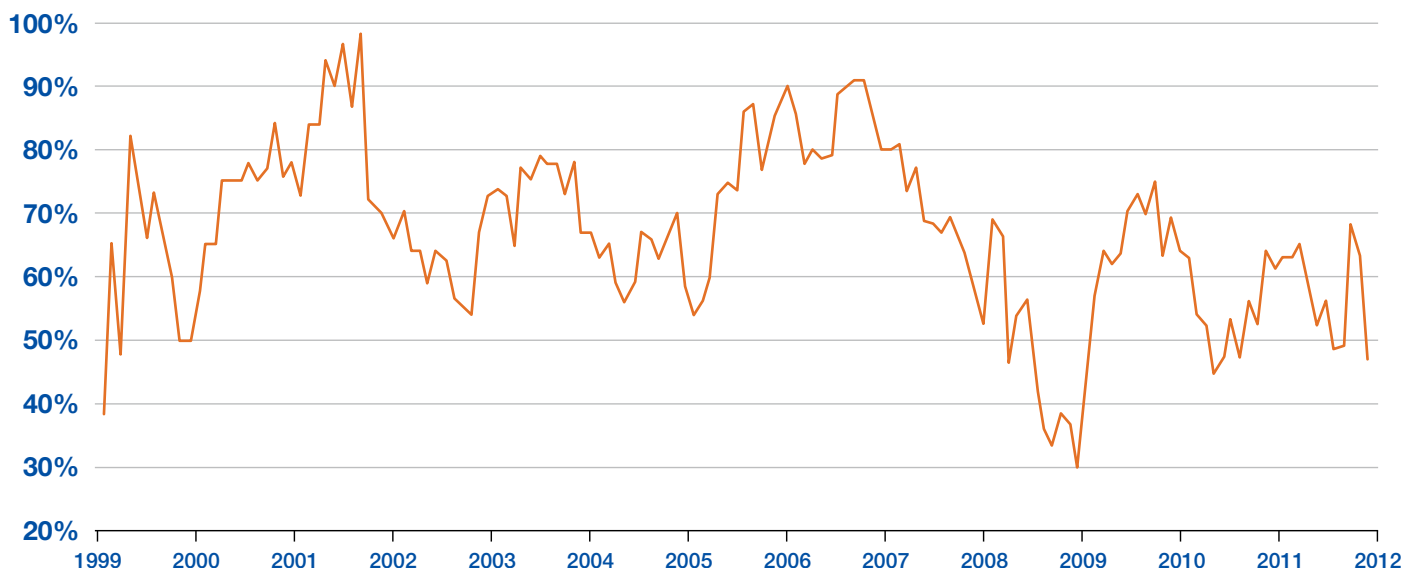
In the Research Driven part of the portfolio, we do not favour investing in mining companies due to their unpredictability and the volatility of revenue and the unfavourable risk reward equation. This does not apply to the Market Driven part of the portfolio where we are looking for trading opportunities.

Risk Management

WAM Capital reduces risk in a number of ways and for a number of reasons. If the Manager does not identify a catalyst under the Research Driven approach, or a trading opportunity under the Market Driven approach, we hold cash. The average cash position since inception has been 33.1%. The Company has no borrowings and has no intention, at this point in time, to take on bank debt. The Company usually has a diverse portfolio. The Company also has a low exposure to the resources sector because the Manager considers this sector is subject to extreme volatility and is difficult to value according to conservative accounting and investment principles.

WAM Capital Limited Equity Exposure

% invested



Performance

We are pleased with the portfolio's performance over the half year to 31 December 2011. We continue to focus on providing risk adjusted returns to investors in the form of fully franked dividends and capital growth.

In evaluating the Funds performance, we look at three key measures. The first performance measure is used to show how the Investment Manager has performed and is compared to the relevant Index. These measures are both before all costs and taxes. WAM's gross portfolio declined 2.2% for the half year 31 December 2011, while the S&P/ASX All Ordinaries Accumulation Index fell by 9.6%. Over the same period, the S&P/ASX Small Ordinaries Accumulation Index decreased 12.3% and the S&P/ASX Small Industrials Accumulation Index decreased 10.5%.

The second measure of performance is the movement in underlying assets (NTA) after taxes, management fees and all other costs. This performance shows the change in the value of the assets which belong to the shareholders over the period. Corporate tax, being 30%, is the most significant item of difference between the gross and the net performance. The franking credits attached to this tax paid are available

to be distributed to shareholders through fully franked dividends. WAM's after tax NTA, adjusted for dividends, decreased 1.6% for the 6 months to 31 December 2011.

The third measure of performance is the share price return. The share price adjusted for dividend was 1.4% lower for the 6 months to 31 December 2011. This outperformed the broader market driven by the closure of the discount to NTA of the share price.

The above mentioned performance figures are pleasing given the Fund's focus on risk adjusted returns to investors. These numbers were achieved while holding an average of 45% cash for the period.

What follows will summarise the two investment processes utilised by WAM Capital:

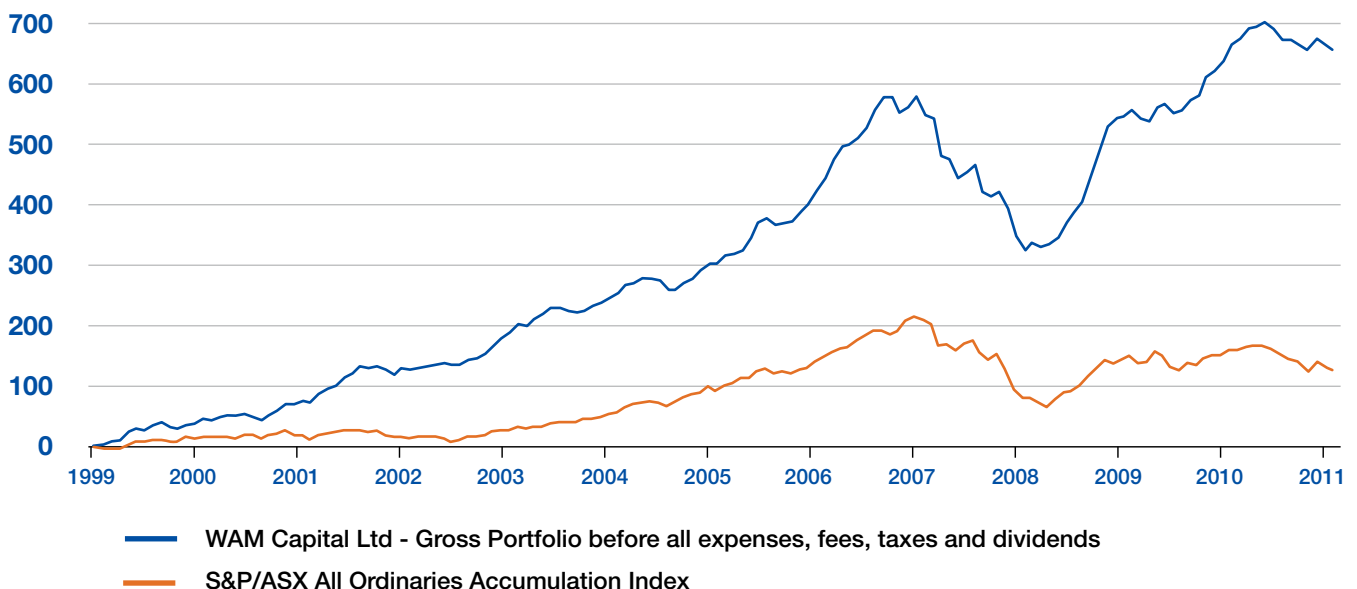
Research Driven

The last six months has proven a difficult period for the small and mid-cap industrial stocks, which the Research Driven part of the

portfolio primarily focuses on. The softening Australian economy, and the recession-like conditions being experienced on the east coast of Australia, have crimped industrial companies' earnings growth. We have managed to add a few stocks in the period, Coffey International (COF), which has been a good performer for the Fund after we participated in the company's capital raising at \$0.38. The best performing research stock for the period was Reckon Limited (RKN), which continues to benefit from pricing increases in its Quickbooks accounting product range.

The largest detractor on the Research side was Macquarie Telecom (MAQ) which was weaker after a stellar run in 2010/2011. The stock was a successful one for the Fund and has now exited the portfolio.

We expect the current reporting season will provide a number of new investment opportunities with a focus on companies leveraged to interest rate cuts in Australia.



Market Driven

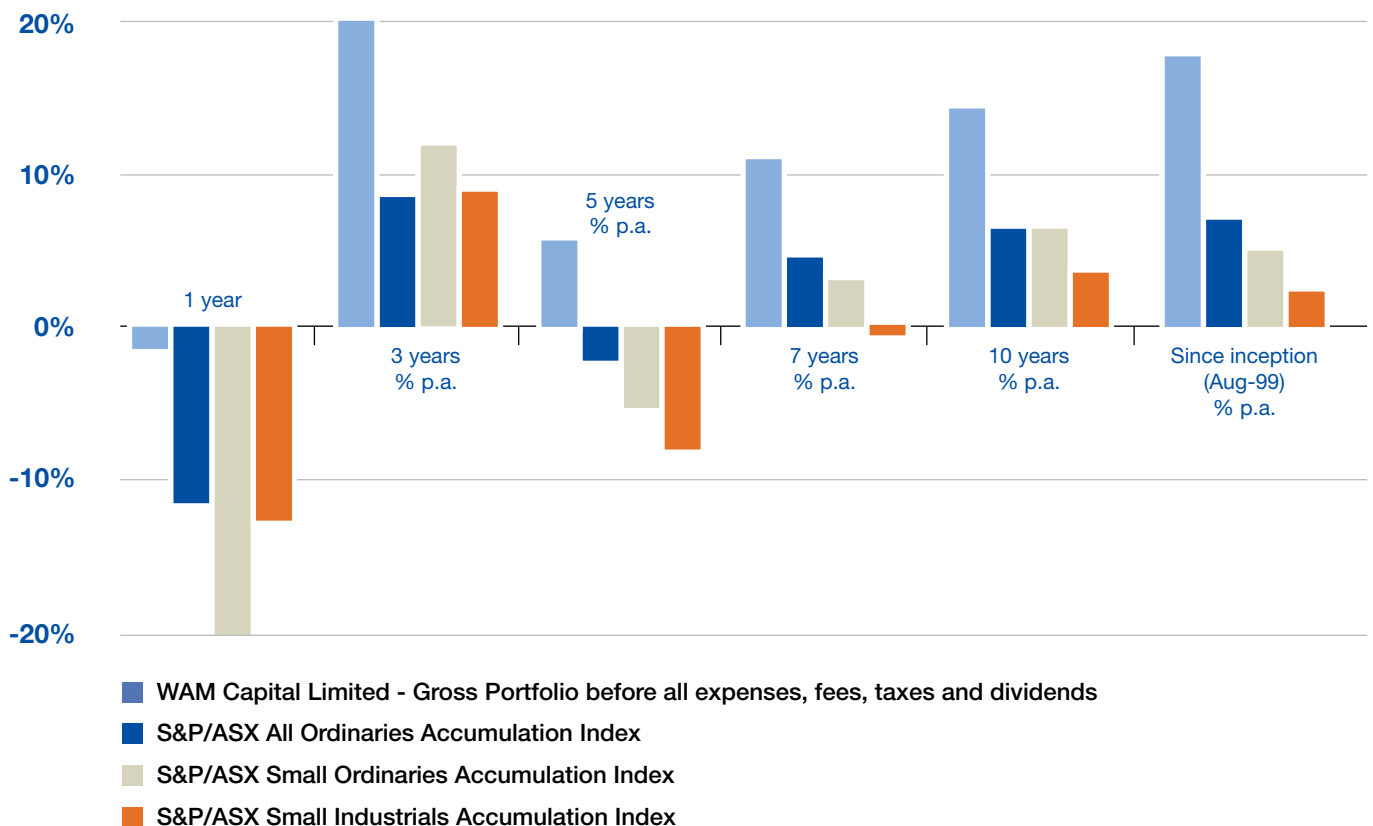
For the last six months there was a plethora of merger arbitrage opportunities which were the major contributor to the performance of the Market Driven portfolio. The Fund's performance was assisted by positions in Coal & Allied Industries (CNA), Hunnu Coal (HUN), Isoft Group (ISF) and Souls Private Equity (SOE). All four of these positions were purchased after the initial takeover was announced. The annualised returns on these positions were higher than what the Fund receives on its cash in term deposits, currently just below 6%.

The best performing stock for the period was Listed Investment Company Signature Capital (SGI), which benefitted from an off-market buyback at 98% of NTA. Our position in Contango Capital Partners (CCQ) also added to performance, with Contango Microcap (CTN) announcing an on-market takeover bid for the stock they did not own at \$0.90.

The largest detractor was Symex Limited (SYM), which announced a profit downgrade late in the half with the outlook deteriorating significantly for its suite of consumer related products.

Looking into the new calendar year 2012, we are cautiously optimistic that this will be a better year for equity markets than the last. We have recently reduced our cash weighting and have started investing in new Research Driven stocks we expect will benefit from the Reserve Bank of Australia interest rate cuts. We expect to continue to benefit from a heightened level of corporate activity with balance sheets in sound positions.

Annualised Performance as at 31 December 2011



The performance data in the graph above is before all expenses, fees and taxes and is used as a guide to how WAM Capital has performed against the various indexes, which are also a before all expenses, fees and tax measure.

Interim Dividend

A fully franked interim dividend of 5.5 cents per share has been declared by the Board and will be paid on 23 March 2012. The shares will trade ex dividend on 9 March 2012. This is a 10% increase on the prior year's interim dividend.

“ 10% increase in the interim fully franked dividend to 5.5 cents per share represents an annualised fully franked dividend yield of 7.1% based on the 16 February closing price.”

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. It must also comply with Government legislation and the ATO's interpretation of a company's ability to pay franked dividends. Dividends are paid on a six-monthly basis.

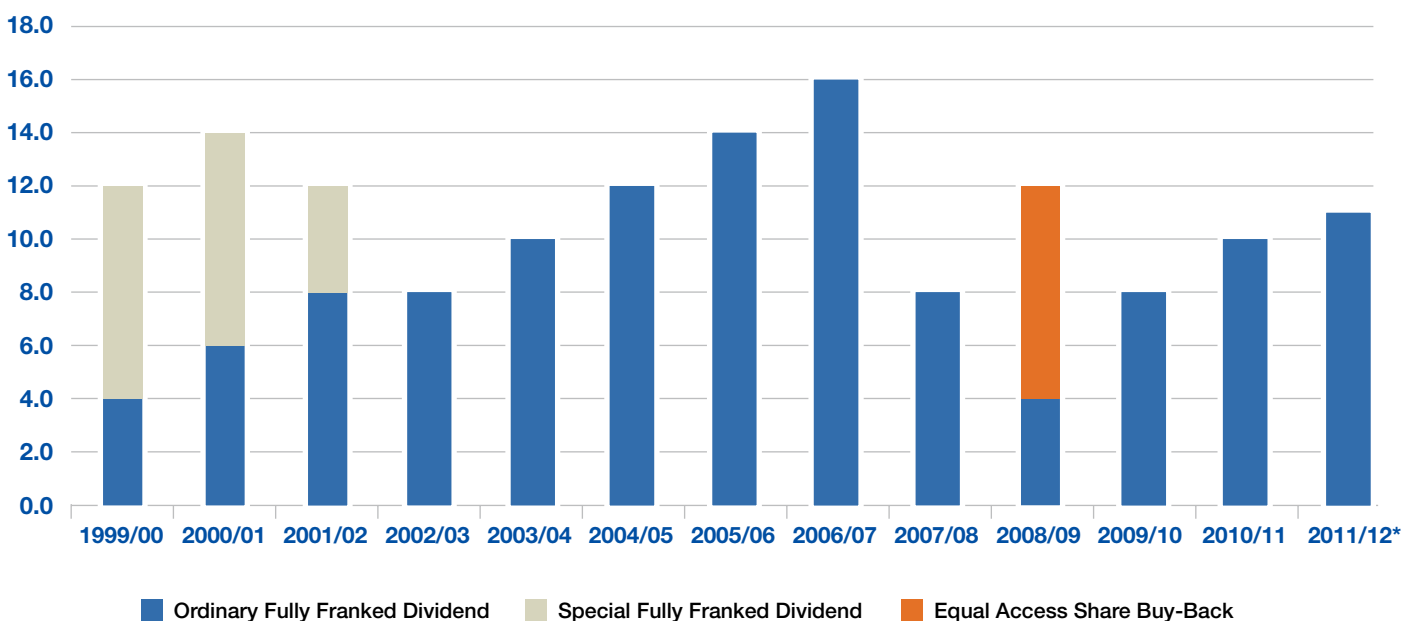
Government legislation introduced in June 2010 now enables companies to pay dividends if the company is deemed solvent. Dividend payments will be made with consideration to cash flow, cash holdings, available franking credits and ability to pay franked dividends. Essentially, WAM Capital will always be in a position to pay dividends providing it is solvent.

The dividend reinvestment plan will operate for the interim dividend at a 2.5% discount.



Minimum Yield of 8.0% on IPO price over the last 12.4 years

Cents per share



* Annualised interim dividend

A closer look at our holdings

Coffey International Limited (ASX code: COF) (Research Driven)

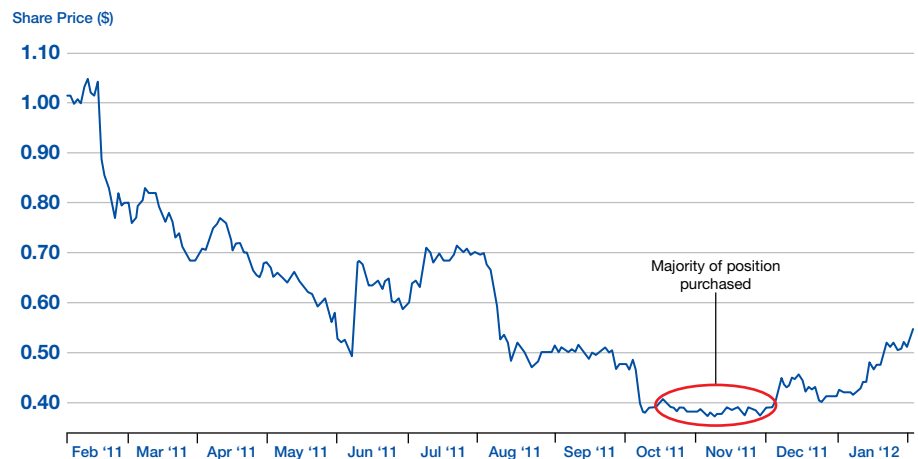


Coffey International was a much loved stock in 2007 when the share price peaked at \$4.73. Since then, the company has fallen on hard times with the share price falling to \$0.40. The recapitalisation via the rights issue at \$0.38 provided us the opportunity to build our position. We see significant value in Coffey at current share price levels of \$0.58 at the time of writing.

Coffey is an Australian based company founded in 1959, which provides professional consultancy services specialising in Geotechnics. Examples of work here include site investigation, analysis or construction advice. The Geosciences division is the company's largest at approximately 60% of earnings. Another division is International Development, where Coffey provides services and advice to organisations such as AusAid and the UN. One example of work here is they offer development advice in countries such as Nigeria. The final division is the Mining division where Coffey generally partner with mining companies and offer consulting services guiding them through the life cycle, offering cost advice, technical audits and studies, to name a few.

Coffey was put up as an investment idea at our weekly meeting where it was decided to get an update from the company. It was under new management and looking like a turnaround play given its high level of debt and financial performance in recent years. It ticked many boxes for us: lack of institutional fund manager ownership on the share register, stock was 'off the radar' given its chequered past and new management, in our view, could turn around what had been a poorly managed business.

We initially met with the company twice over a six month period in 2011 to discuss their results. It was



clear to us that Coffey's debt level on the balance sheet was too high and fresh equity was the likely scenario. We thought there was a chance the company would launch an equity raising on the back of their result release in August 2011. However the broader market was in freefall at the time, down 11% in just over a week in the lead up to the result announcement. Subsequently, in early October the company announced it was looking to raise \$40m at \$0.38, a 17% discount to the share price at the time. This is where we bought the majority of our initial holding.

We started with a 0.5% weighting in the portfolio, expecting more stock could be bought on the secondary market once the company started trading again post-raising. This was the case. This is typical of our investment process – we start with relatively small positions until we have a higher level of conviction.

Since the raising, we have met with the management team several times (5 meetings in 2011) and now have a high level of conviction and therefore, a high weighting in the portfolio.

The stock rates highly as a Research Driven investment given the high level of earnings growth forecast. The company has guided to \$45m EBITDA for financial year 2012 which is a critical catalyst for the stock. Delivery of this will instill further confidence in the marketplace. We expect, on achievement of this milestone, the share price may re-rate. Other share price catalysts include a return to paying dividends. The debt levels of the company are now very manageable at current levels of circa \$60m. At \$0.42 our average entry price, Coffey trades on a price to earnings ratio of 6.5x which reduces to 4.9x in FY13 on our forecasts. This compares to the Small Industrials Index which trades on 11x P/E in FY12 and 9.4x in FY13.

Miclyn Express Offshore Limited (ASX code: MIO)

(Market Driven)

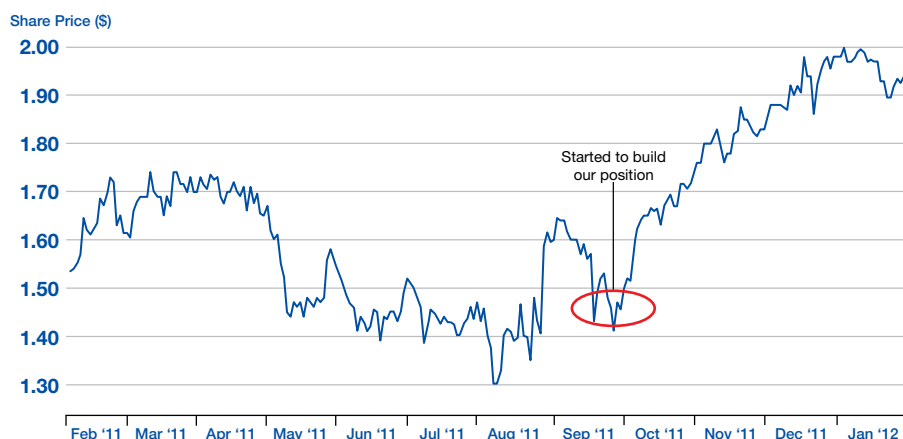


Miclyn Express is a provider of service vessels to the offshore oil and gas industry in South East Asia, Australia, the Middle East and the North Sea.

The group charters a diverse range of vessels, including Crew/Utility Vessels, Barges and Coastal Survey Vessels to customers in the offshore oil and gas industry. The trade in Miclyn Express Offshore is a combination of a potential takeover arbitrage and a relative value arbitrage.

Miclyn Express listed in March 2010 at \$1.90. It has only recently traded above the listing price. In August 2011, the shares traded as low as \$1.16 before a catalyst occurred which sparked our interest.

On 26 August, the company announced that Headland Capital Partners, a Singapore based private equity fund, had acquired 26.5% of the shares in MIO at \$1.86 per share, a 32% premium to the share price at the time. The announcement was short on details, but stated that Headland Capital Partners wouldn't purchase any additional shares for a period of 3 months, after which time there were no exclusions to buy more shares. We commenced



researching and soon determined the company was very cheap and had a strong growth and earnings profile. The company was trading on a price to earnings ratio of sub 8x and the utilisation rates on the company's tug boat and barge fleet were increasing, driving strong earnings growth.

We commenced buying shares in mid-September and continued buying until mid-October. In late November, the 3 month no-purchase

agreement with Headland Capital Partners expired, and the company provided earnings guidance for FY2012 of 20-25% earnings before interest, tax, depreciation and amortisation (EBITDA) growth. This was an upgrade to the market's expectation at the time. Based on these numbers, the stock was trading on a price to earnings (P/E) ratio of 7.9x with 26% earnings per share (EPS) growth.

An insight into our Research Driven process

Matthew Haupt, Equity Analyst

Karratha and North West Shelf WA Site Visit – November 9th 2011

As part of our research process we regularly visit company sites to see what is going on at ground level. With the mining and energy companies significantly increasing their capital expenditure on new and expansion projects, we thought it was timely to see some of their projects in the North West Shelf region of Western Australia. We had a full site visit on Day 1 and meetings with the companies on Day 2. Here is a summary of our visit.

Day 1 – Mermaid Marine's (MRM) Dampier Supply Base

The trip commenced with a tour around Mermaid Marine's Dampiers supply base. The supply base is crucial for operators working in the North West Shelf region. All the major local and global engineering companies have slots allocated in the supply base. There is talk about a future expansion of the base to cope with the huge demand likely over the next few years. The picture below is a small sample of the amount of drill pipe on site. The drill pipe will be used in the LNG projects that are being developed in the North West Shelf.



Drill pipes located at the Dampier supply base

While we were in the supply base, Mermaid Marine offered to showcase one of the newest additions to their fleet. The vessel was called the Mermaid Leveque. It is a Platform Supply Vessel (PSV) and used in transporting gear to remote offshore locations. The vessel cost over \$30m and was very impressive. Here are some interesting statistics about the PSV. The vessel is 75

metres long, weighs 3,100 tonnes, has 6,700 brake horsepower, maximum speed of 14 knots and can accommodate 40 people.



Mermaid Marine's PSV Vessel located at Port Hedland

Day 1 – Rio Tinto Cape Lambert Processing Site tour NRW Holdings (NRW)



Earthworks being conducted by NRW at the Rio Tinto Cape Lambert expansion

The next part of the trip was with listed mining service stock NRW Holdings. We were transported from Karratha to the Rio Tinto Cape Lambert expansion site. NRW Holdings primarily do civil and drill & blast work. NRW was awarded the early earthworks from Rio Tinto on this project. The CEO of NRW Holdings provided some good insight into the ins and outs of civil works. We toured the site and were shown the projects that NRW are working

on. It is a huge project and there are multiple contractors on site. The picture on the previous page shows the size of the site with the iron ore processing equipment in the distance. The project is valued at \$101m to NRW over 88 weeks with likely scope extension.

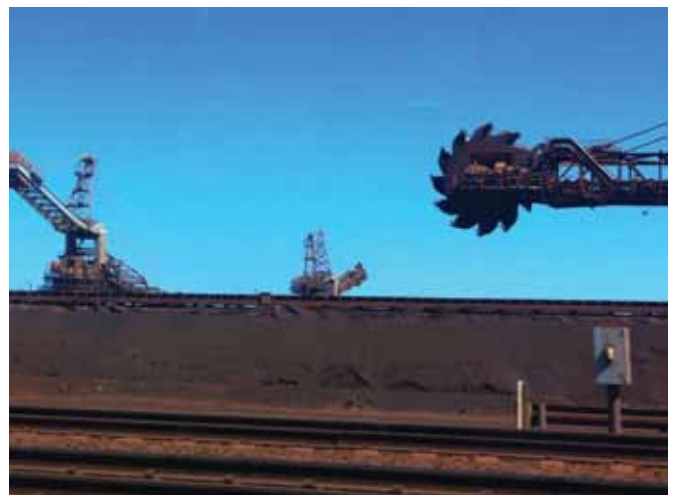


Ground being prepared for blasting at Cape Lambert

Above is a picture of a site being prepared to be blasted. Once the site is blasted, the rubble is removed and transported off site. This process is being handled by NRW as part of the earthworks contract. The advantage for NRW is they have the skills to conduct drill and blast so they can offer an integrated solution.

The earthworks are for an expansion of the Port Hedland site so Rio Tinto can process more iron ore out at the Port given their aggressive expansion plans. The following pictures are of a reclaimer which is used to pick the iron ore stockpiles and transfer the iron ore onto the conveyor belts. The iron ore is then transported to the jetty which is then loaded onto the waiting vessels.

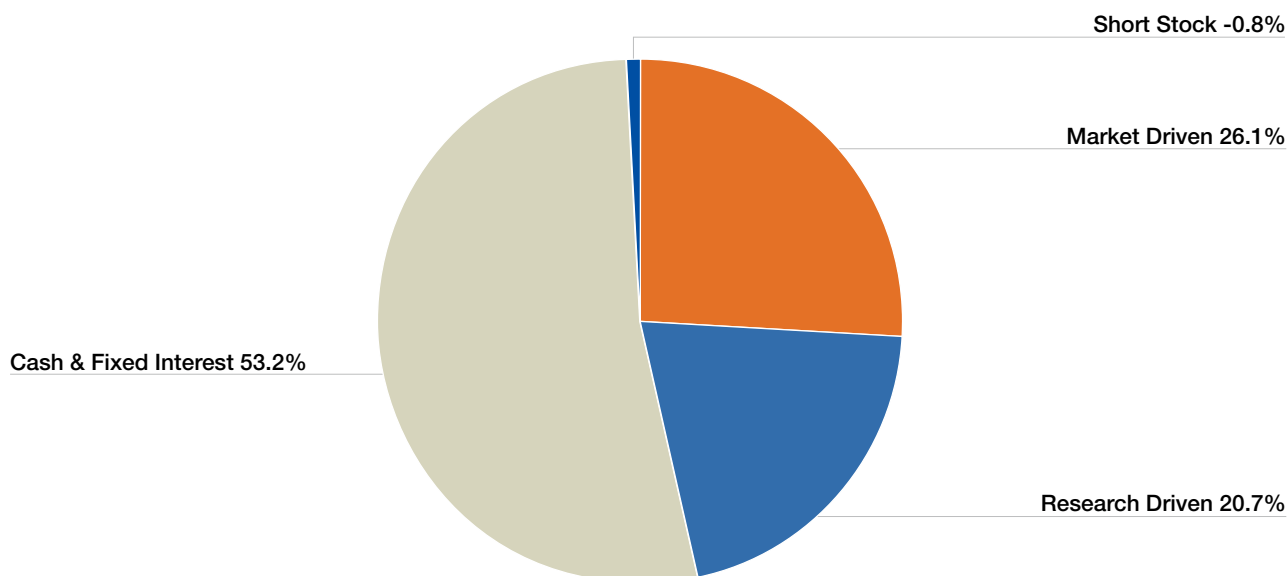
We would like to thank Euroz Securities for organising the tour and also NRW Holdings & Mermaid Marine for allowing us to visit their site and tour their operations.



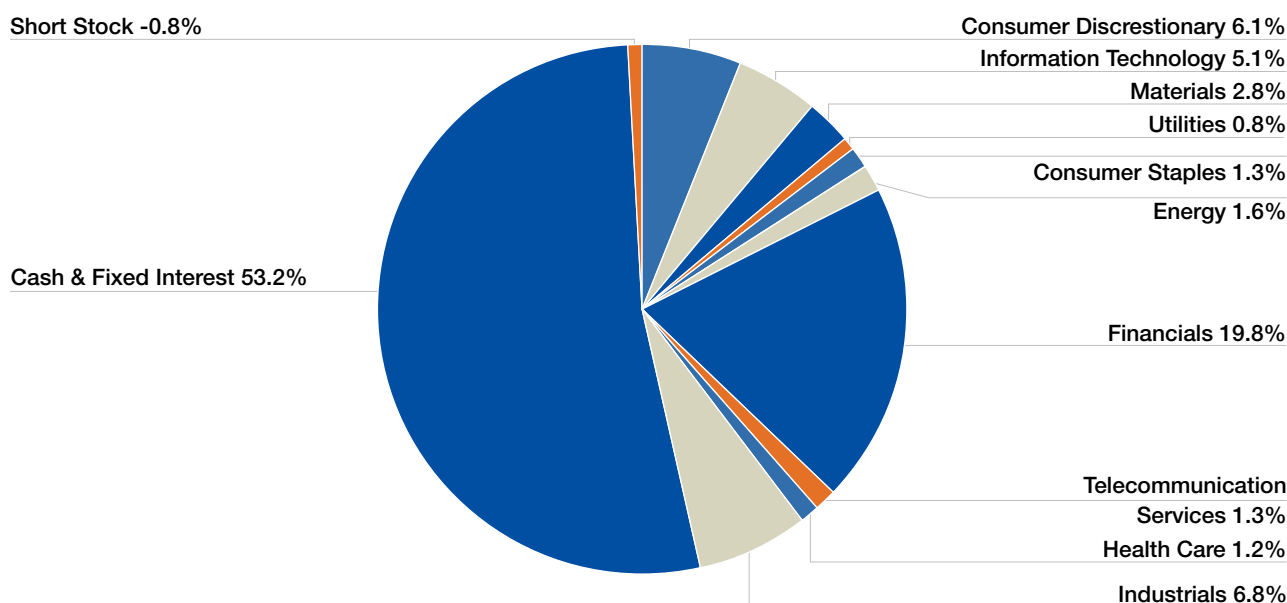
Reclaimer at Cape Lambert moving the stockpiles of iron ore

Portfolio Summary as at 31 December 2011

Asset Allocation



Sector Allocation



Stocks by Market Capitalisation

Category	Weighting
WAM Capital Limited	
ASX (Top 50)	2.6%
Mid Cap (ASX 50-100)	0.0%
Small Cap (ASX 100-300)	12.1%
Ex-Index (Micro Cap)	32.1%
Total ASX Listed Equity	46.8%
Cash & Fixed Interest	53.2%
Total Gross Assets	100.0%

Top 10 Research Driven Stocks as at 31 December 2011

ASX Code	Company Name	Sector	Market Value \$m	% of Gross Asset
RKN	Reckon Limited	Information Technology	6.9	4.1%
MMS	McMillan Shakespeare Limited	Industrials	3.1	1.9%
MYS	MyState Limited	Financials	2.8	1.6%
BRG	Breville Group Limited	Consumer Discretionary	2.2	1.3%
RCR	RCR Tomlinson Limited	Industrials	1.7	1.0%
SGN	STW Communications Group Limited	Consumer Discretionary	1.5	0.9%
BKL	Blackmores Limited	Health Care	1.3	0.8%
SAI	SAI Global Limited	Industrials	1.3	0.8%
IPP	Iproperty Group Limited	Information Technology	1.3	0.8%
COF	Coffey International Limited	Industrials	1.3	0.8%

Top 10 Market Driven Stocks as at 31 December 2011

ASX Code	Company Name	Sector	Market Value \$m	% of Gross Asset
SGL	Signature Capital Investments Limited*	Financials	7.2	4.3%
ELI	Emerging Leaders Investments Limited	Financials	4.2	2.5%
CCQ	Contango Capital Partners Limited	Financials	2.6	1.6%
MSF	MSF Sugar Limited (The)	Consumer Staples	2.1	1.2%
BSL	Bluescope Steel Limited	Materials	1.9	1.2%
RHG	RHG Limited	Financials	1.8	1.1%
WBC	Westpac Banking Corporation	Financials	1.7	1.0%
NAB	National Australia Bank Limited	Financials	1.7	1.0%
SDG	Sunland Group Limited	Financials	1.7	1.0%
NHC	New Hope Corporation Limited	Energy	1.7	1.0%

*We participated in the SGI buy-back with the proceeds received on 31 January 2012.

Best Performing Stocks Half Year to 31 December 2011

ASX Code	Company Name	Sector	Unrealised / Realised Gains
SGL	Signature Capital Investments Limited	Financials	\$1,767,857
CCQ	Contango Capital Partners Limited	Financials	\$501,020
CNA	Coal & Allied Industries Limited	Energy	\$353,373
RKN	Reckon Limited	Information Technology	\$289,220
MSF	MSF Sugar Limited (The)	Consumer Staples	\$269,240

Worst Performing Stocks Half Year to 31 December 2011

ASX Code	Company Name	Sector	Unrealised / Realised Losses
SYM	Symex Holdings Limited	Materials	(\$775,326)
AUN	Austar United Communications Limited	Consumer Discretionary	(\$711,944)
MAQ	Macquarie Telecom Group Limited	Telecommunication Services	(\$692,534)
CAF	Centrepont Alliance Limited	Financials	(\$619,912)
ALS	Alesco Corporation Limited	Industrials	(\$472,429)

Current Issues

We regularly get asked questions from shareholders relating to a number of macro economic factors. Here we aim to cover the most topical.

“*The Australian economy has slowed in the last six months which, in our view, will see more interest rate cuts.*”

Interest rates: At the time of writing, the cash rate remains at 4.25%. The Reserve Bank of Australia (RBA) commenced its loosening cycle in November with a reduction of 0.25% and followed this up in December with another 0.25% cut. The bond market is anticipating a 1% further reduction in interest rates in 2012. We view this as optimistic. The Australian economy has slowed in the last six months which, in our view, will see more interest rate cuts, however not at the pace the bond market is predicting. However, if we see further downside in Europe, this could trigger the RBA into further rate cuts than anticipated. The question will be: will these be passed on in full by the major banks? Given the recent rise in funding costs, we expect that any further rate cuts will not be passed on to mortgage holders in full as banks look to try and retain margins. This has been seen recently with all four Australian major banks lifting the standard variable mortgage rate higher independent of the RBA.

House prices: Recent data has seen continued weakness in Australian house prices, down 1% for the December quarter. The softer macroeconomic environment and the deleveraging of consumers have put downward pressure on prices. We anticipate house prices will remain relatively flat over the coming 12 months. Lower interest rates may encourage first home buyers to re-enter the market, which could provide a stimulant to the affordable end of the market. Affordability remains the key. Wages growth is anaemic, the savings rate continues to rise and unemployment is increasing. These factors in our view could see house prices remain flat in 2012. We don't see Australian house prices 'crashing', as some overseas experts predict. The shortage of new housing stock and net migration will see prices rise longer term.

Corporate activity: Australian corporates remain well-capitalised. Gearing levels are low and many companies have excess cash to deploy in assets, enhancing returns on their equity. We expect, given most industrial companies' earnings growth is currently sluggish, that some will seek acquisitions to drive earnings growth. One example is Super Retail Group's recent acquisition of Rebel Sport. The higher Australian dollar may encourage Australian companies to venture overseas for value accretive opportunities.

Australian economy: Productivity remains extremely weak and continues to decline, which is a concern for the economy longer term. The two-speed nature of the Australian economy continues, with the east coast of Australia experiencing recession-like conditions while the mining boom, particularly in Western Australia, gathers momentum. Inflation has declined to 2.5%p.a which remains in line with the Reserve Bank's target of 2-3%. Unemployment has increased recently to 5.2%. Large job losses have commenced, especially in the banking sector, which will see this figure rise in the coming months. We expect further interest rate cuts will stimulate the industrial sector in the coming months, while Chinese growth, albeit at a slower rate, will continue to support higher than average commodity prices.

Market Outlook

In the first 6 months of this financial year, the Australian share market posted a decline of 9.6% as measured by the S&P/ASX All Ordinaries Accumulation Index. Equity markets worldwide were dragged down, primarily by the European sovereign debt crisis and the inability of European governments and the ECB to coordinate a credible and robust response.

The European sovereign debt crisis appears, on the face of it at least, to be slowly reaching some form of conclusion. The ECB's near 500bn Euro lending programme to commercial banks just before Christmas seems to be having the desired effect, with yields falling considerably in the January 2012 debt auctions. Continued real progress on the debt crisis and further falls in yields, will remove a strong headwind which has been buffeting equity investors for the last few months. Any resolution in Europe could be a positive for equity markets in the coming months. However, at this stage this is far from certain.

In the US, there has been a steady increase in positive economic data points. We have seen unemployment drop from 9.0% to 8.3% whilst housing, GDP and manufacturing data have also all shown modest improvements. This suggests a nascent recovery may be underway in the world's largest economy. A US recovery will have positive effects into the broader world economy, offsetting the drag from the Euro zone. US companies balance sheets are in good shape, with high levels of cash, which has the potential to be put to use through corporate activity and expansion of products and hiring. The US economy is certainly one to watch carefully in the coming months, especially for

Australian companies exposed to the US market, such as James Hardie, Breville and Billabong.

With regards to Australia, the RBA has responded to the slowing down in the domestic economy by cutting interest rates by 0.50% in the period. Looking ahead, we expect further rate cuts in 2012 from the RBA. This will reduce funding costs for companies and could provide a springboard for increased levels of corporate activity in the coming year. It will also reduce the term deposit rates offered by banks, and this may turn investors' attention to higher yielding assets, such as shares and provide a boost to equity markets generally.

Equity analysts and market strategists have moved to a more conservative stance in recent months with regard to earnings and the outlook for the Australian economy. The consensus earnings estimates for Australian industrial companies for FY2012 are now 6%

compared to 14% a few months ago. This indicates that analysts have adjusted their earnings expectations downwards. In the current interim reporting period, we expect to see more earnings surprises to the downside rather than the upside. These results, we believe, will see analysts adjust downwards FY2013 earnings expectations for industrial companies.

There is still a reasonable amount of uncertainty about how Australian consumers will respond to the rate cuts and whether this nascent recovery in US economic activity can be sustained and improved upon. China, for now, appears to be ticking along at a more moderate pace, but strong enough to keep the mining boom intact in the medium term. Europe though, continues to remain a key issue. With this backdrop, we are cautiously optimistic that 2012 will be a better year for equity markets.



Intelligent people own shares

Source: *Sydney Morning Herald Business Day*

The smarter you are, the more stock you probably own, according to researchers who say they found a direct link between IQ and equity market participation.

Intelligence, as measured by tests given to 158,044 Finnish soldiers over 19 years, outweighed income in determining whether someone owns shares and how many companies they invest in. Among draftees scoring highest on the exams, the rate of ownership later in life was 21 percentage points above those who tested lowest, researchers found. The study, published in last month's *Journal of Finance*, ignored bonds and other investments.

Economists have debated for decades what they call the participation puzzle, trying to explain why more people don't take advantage of the higher returns stocks have historically paid on savings. As few as 51 per cent of American households own them, a 2009 study by the Federal Reserve found. Individual investors have pulled record cash out of US equity mutual funds in the last five years as shares suffered the worst bear market since the 1930's.

"It's what we see anecdotally: higher-IQ investors tend to be more willing to commit financial resources, to put skin in the game," said Jason Hsu, chief investment officer of Newport Beach, California-based Research Affiliates LLC. "You can generalize a whole literature on this. It seems to suggest that whatever attributes are driving people to not participate in the stock market are related to the cost of processing financial information."

'So Strong'

While intelligence influenced things that might naturally increase equity ownership such as wealth and income, the authors said IQ determined who owned the most stocks within those categories as well. Among the 10 per cent of individuals with the highest salary, "IQ significantly predicts participation" in the stock market, they wrote. For example, people in the highest-income ranking who scored lowest on the test had a rate of equity market participation that was 15.7 percentage points lower than those with the highest IQ.

"If you look at the significance of IQ related to other factors like income or wealth, certainly it plays a very large role," Keloharju, a finance professor at Aalto, said in a phone interview. "It's very difficult to get around that problem, but the results are so strong here. We are playing with lots of different controls and lots of different specifications, and all the time things work really well."

Financial Education

Hsu of Research Affiliates said an explanation for why draftees with lower test scores owned less stock is that they found it harder and more expensive to receive financial education. Getting people information on investing at a younger age may help limit the disparity, he said.

"The costs to achieve that are certainly higher if someone isn't providing that at an earlier stage in one's education," said Hsu. "If we

could provide advice, or provide education, to help reduce the cost of acquiring financial knowledge, that would seem like a good thing."

The paper is part of a broader debate about the role individual characteristics such as affluence and education play in investor actions. In the 1980s, so-called behavioural economists broke away from theorists such as Sharpe, who tended to think of all investors as rational.

Greg Davies, head of behavioural finance at Barclays Wealth in London, said his team tries to gauge clients' risk tolerance with personality profiles and investment strategies that appeal to "emotional needs."

Implications

"As advisers, of course, we see our role in overcoming the irrational, emotional, inaccurate elements on behalf of our clients," said Davies. "But the implications of this for the mass markets are much greater."

Markowitz said the argument that intelligence and personality sometimes trump rationality in guiding investors has little bearing on his work. His theory comes down to the view that anyone hoping to get the highest payout at the lowest risk should broaden their asset ownership.

"It's advice for the individual investor," Markowitz, 84, said in a telephone interview. "I am delighted to learn the more intelligent a person is, the more likely they are to act in the spirit of what I wrote."



WILSON
ASSET MANAGEMENT

Wilson Asset Management is an independently owned boutique investment manager established in 1997 by Geoff Wilson. Wilson Asset Management is based in Sydney, Australia.

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

The WAM Group is the manager of three listed investment companies and one unlisted fund, with funds under management of approximately \$320 million.

In August 1999, the first of the three listed investment companies WAM Capital Limited (WAM), was established and has grown from \$22 million to approximately \$168 million today. WAM predominantly invests in growth companies with a focus on small to medium sized companies listed on the ASX.

The second listed investment company, WAM Research Limited (WAX), was established in August 2003. Funds under management are currently \$97 million. Previously known as Wilson Investment Fund, WAX predominantly invests in growth companies with a focus on small to medium sized industrial companies listed on the ASX.

WAM Active Limited (WAA) is the most recent addition to the Group which was listed in January 2008. Funds under management are currently \$17 million. WAA is an opportunistic investor with high turnover and a focus on absolute returns.

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