



Investor Report  
30 JUNE 2008



Dear shareholder,

Welcome to the Investor Report for 2007/08. One of our objectives is to continuously communicate with our shareholder base. This has traditionally been achieved via our six monthly roadshows along with monthly NTA announcements and general information on our website. This report will give you more of an insight into our investment process and provide you with some commentary on the market in what has been a volatile ride for Australian and global equities over the last 12 months. We hope you enjoy this inaugural edition of our investor report and encourage your feedback as to its content.

Yours sincerely,

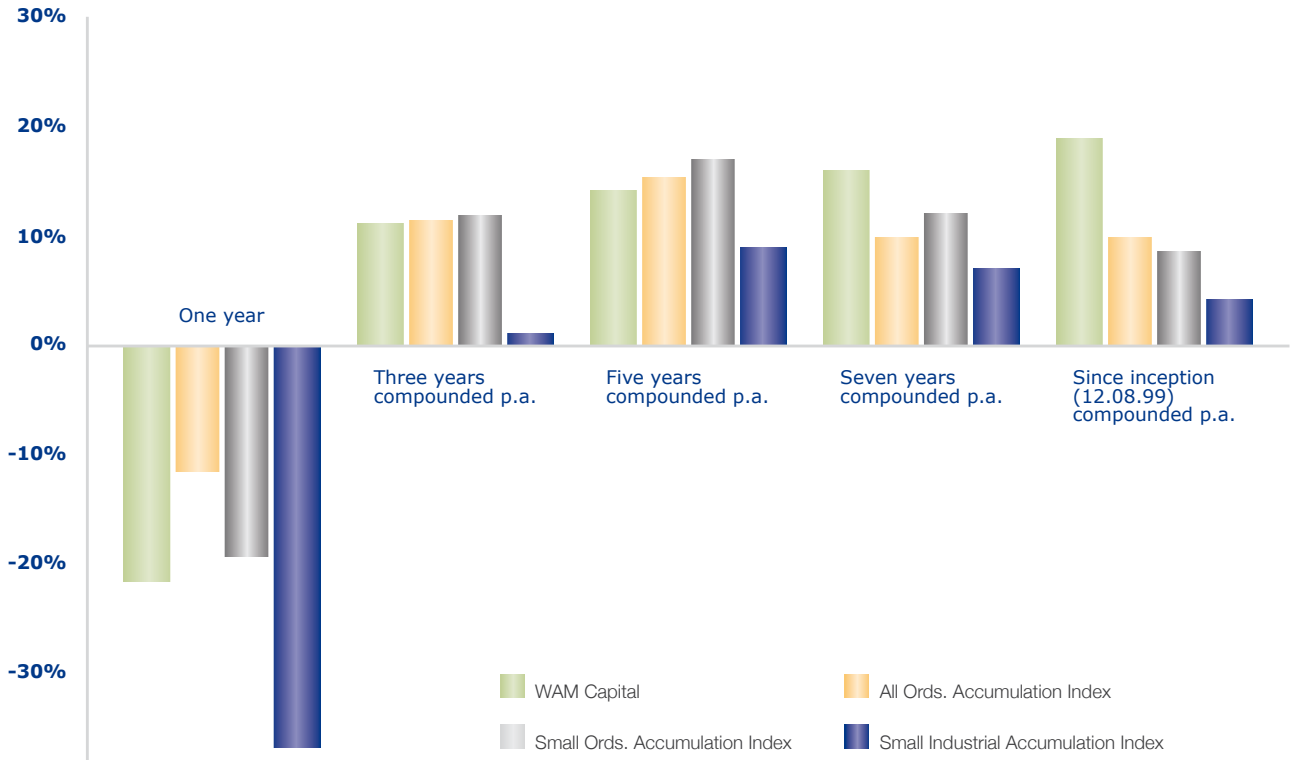
A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

**Geoff Wilson**  
Chairman  
WAM Capital Limited

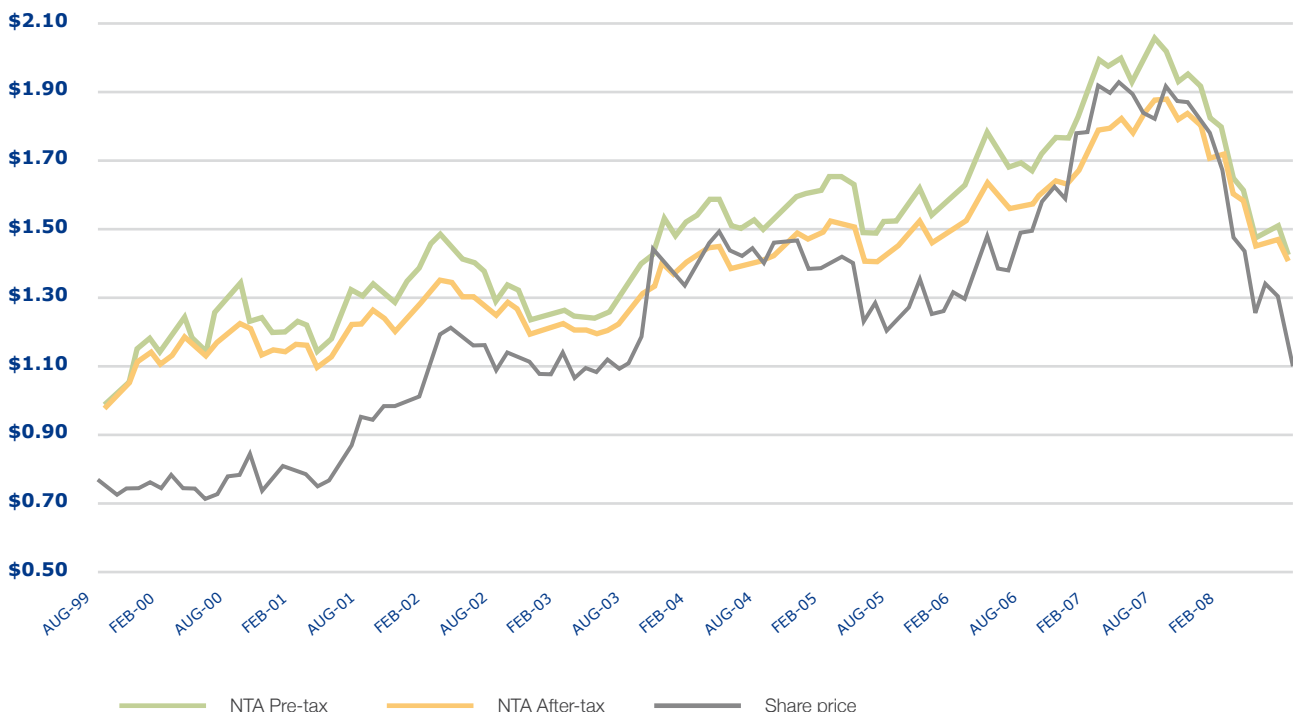
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**WAM Capital Ltd Versus All Ordinaries Accumulation Index, Small Ordinaries Accumulation Index and Small Industrials Accumulation Index to 30 June 2008**



**NTA & Share Price History**



# Investment Objectives and 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**, where we undertake extensive research, rating the company's management, earnings growth potential, valuation, industry position, generation of free cash flow and identifying a catalyst that will change the valuation the market gives to the company, and

(b) **Market Driven investing**, where we scour the market for trading opportunities. These could include participating in initial public offerings, placements, block trades, rights issues, merger 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 profits.

*Looking ahead we see some attractive investment opportunities appearing in the industrial and financial sectors of the market.*

## Performance

*What a year, one we would prefer to forget but one that will be etched in our minds forever.*

Our results for the year saw a decline in our net tangible asset backing (NTA) by 18% after tax and dividends paid. This was a result of a number of factors which we will now discuss.

The cash portion of our portfolio contributed 2.4% to the overall performance over the twelve months to June 2008. The research part of the portfolio detracted 11.7% as it was impacted by a significant PE (price to earnings) multiple contraction due to the repricing of risk and in some cases, a change in earnings outlook. The trading section of the portfolio detracted 15.8% as positions were impacted by the rapid fall in the market.

The structure of the portfolio changed over the twelve months. At 30 June 2007, cash accounted for 26% of the portfolio, research driven investments were 35% and market driven opportunities made up 39%. The cash position of the portfolio was adjusted as we identified and crystallised trading and market driven opportunities. At 30 June 2008, cash accounted for 53% of the portfolio, research driven investments were 25% and market driven opportunities made up 22%. This is the first year the Fund has recorded a negative return since inception in August 1999.

In the 2007/08 financial year, the managers correctly positioned the Fund with a high cash position. However, the rapid repricing of risk had a significant impact on our portfolio which was made up of industrials with a skew toward mid and small sized capitalised companies. During the financial year to 30 June 2008 the S&P/ASX Financial Accumulation Index fell 31.2% while the S&P/ASX 200 Industrial Accumulation Index fell 33.1%. The All Ordinaries Accumulation Index only declined by 12.1% as it was bolstered by a robust performance from the resources sector of the market which was propelled higher by a surge in oil and bulk commodity prices. With our focus on small to mid sized industrials, we have never had a significant exposure to the resources sector. It proved to be a missed opportunity, especially from November 2007 to June 2008.

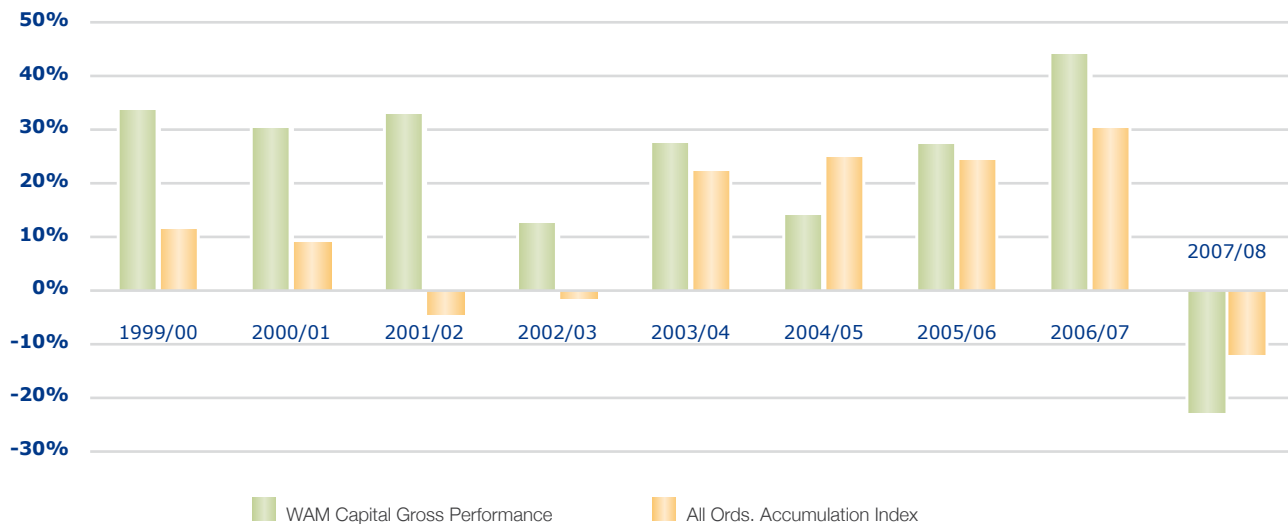
Looking ahead we see some attractive investment opportunities appearing in the industrial and financial sectors of the market. While earnings growth in these sectors has stalled, valuations have improved significantly. The average price to earnings ratio (PE ratio) has fallen from around 16.5 times prospective earnings to approximately 12 times earnings. A similar, if not more dramatic, reduction in PE's has taken place in small financial and industrial stocks.

Initially the manager will look to take advantage of these opportunities by gaining exposure to a range of top 100 companies in the market driven portion of the portfolio. Later in the recovery (which we predict will be in calendar year 2009) there will be some great opportunities in our traditional hunting ground of small and medium sized industrial stocks.

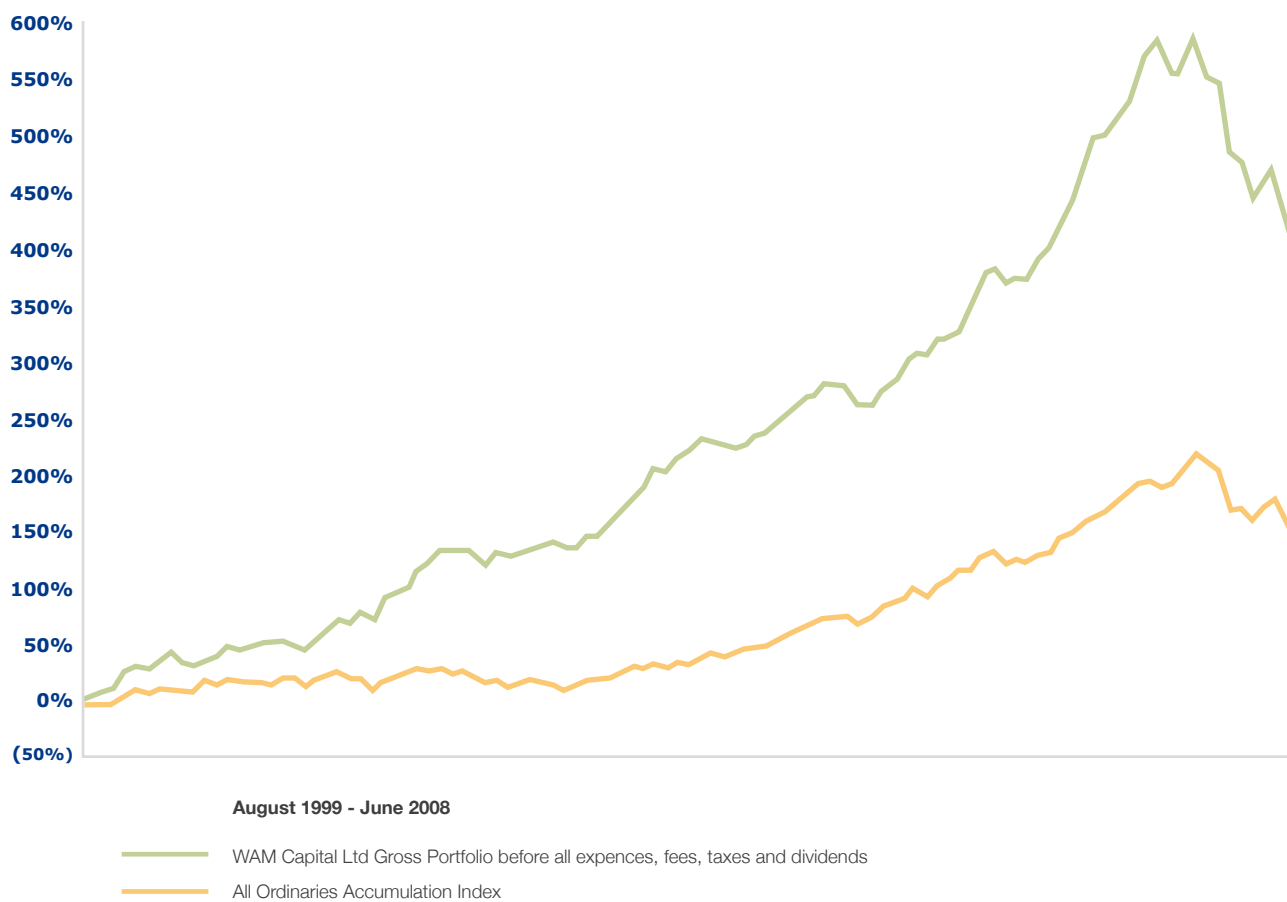
The manager believes the market will not return to the 1 November 2007 high for several years. To reach that peak the overall market must rise approximately 40% while the All Industrial Index must rise approximately 65% to reach its previous high. We do believe however, that the worst of the bear market is behind us and a bottom will be found in the next 6 to 9 months. That is, if the bottom has not already been reached.

We see the best opportunities in the hardest hit sectors such as banking, building, non bank financials, transport, select property plays and small cap industrials. We are researching all these sectors in detail to identify the companies with the greatest upside and to identify catalysts that will result in a share price re-rating.

## Annual Relative Performance

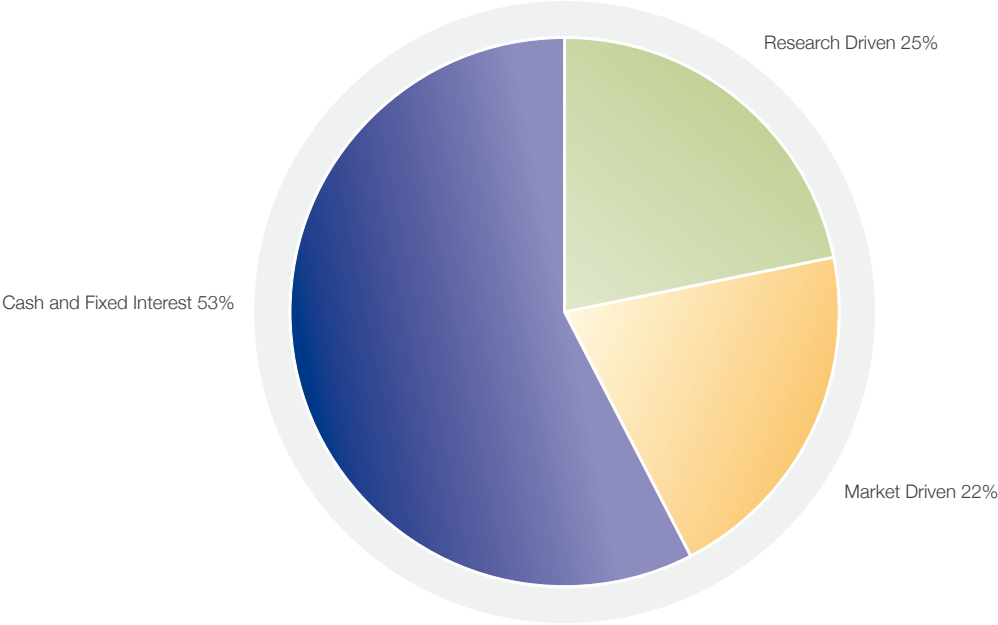


## WAM Capital Gross Portfolio Vs All Ordinaries Accumulation Index

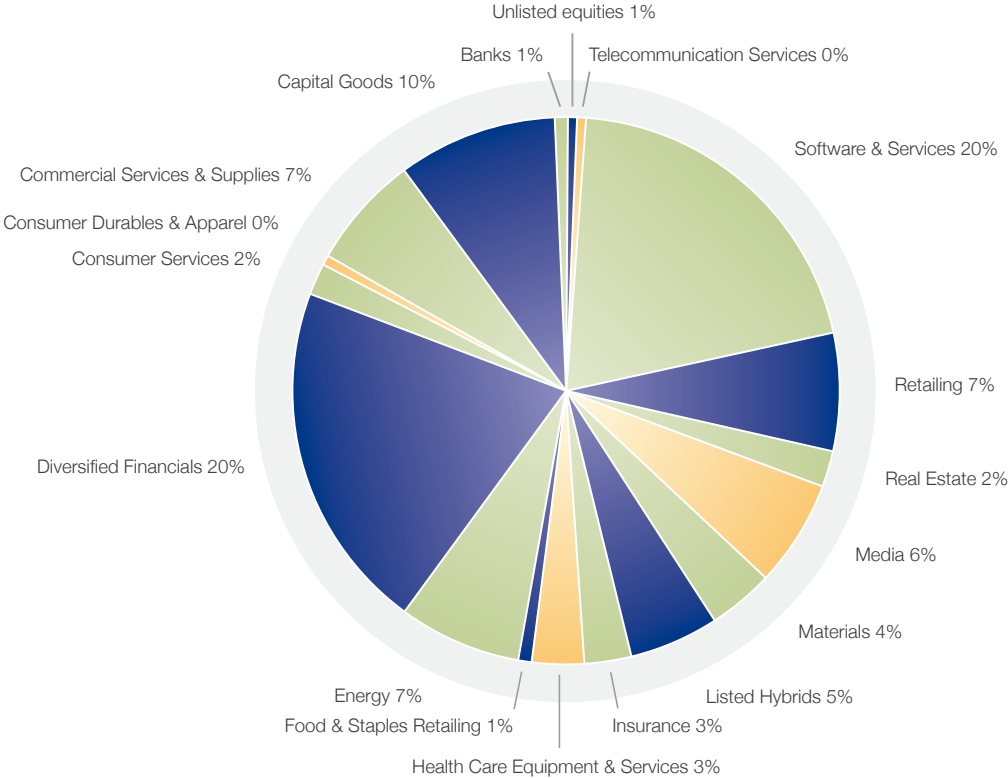


# Portfolio Summary as at 30 June 2008

## Asset Allocation



## Sector Allocation



## Top 10 Research Stocks at 30 June 2008

ASX Code	Company Name	Sector	Market Value \$m	% of Gross Assets
RKN	Reckon Ltd	Software & Services	6.6	4.5%
MLB	Melbourne IT Ltd	Software & Services	3.7	2.5%
HFA	HFA Holdings Ltd	Diversified Financials	3.1	2.1%
PGA	Photon Group Ltd	Media	2.3	1.5%
MMS	McMillan Shakespeare Ltd	Commercial Services	2.1	1.4%
SEK	Seek Ltd	Commercial Services	2.1	1.4%
TWR	Tower Ltd	Insurance	1.9	1.3%
MCU	Mitchell Comm. Group Ltd	Media	1.8	1.3%
RRA	RR Australia Ltd	Retailing	1.7	1.2%
SSM	Service Stream Ltd	Capital Goods	1.7	1.2%

## Top 10 Trading Stocks at 30 June 2008

ASX Code	Company Name	Sector	Market Value \$m	% of Gross Assets
ARQ	ARC Energy Ltd	Energy	2.1	1.4%
HAP	HFA Accelerator Plus Ltd	Diversified Financials	2.0	1.4%
KBC	Keybridge Capital Ltd	Diversified Financials	1.6	1.1%
JST	Just Group Ltd	Retailing	1.5	1.0%
CIW	Clime Investment Management Ltd	Diversified Financials	1.4	1.0%
PRY	Primary Health Care Ltd	Health Care Equip & Services	1.4	1.0%
SGL	Sydney Gas Ltd	Energy	1.4	0.9%
HGI	Henderson Group PLC	Diversified Financials	1.0	0.7%
LNC	Linc Energy Ltd	Energy	0.9	0.6%
AED	AED Oil Limited	Energy	0.7	0.5%

## Best Performing Stocks FY2008

ASX Code	Company Name	Sector	Unrealised/ Realised Gains \$
EBI	Everest Babcock & Brown Alt Inv Trust	Diversified Financials	822,812
DYE	Dyesol Ltd	Capital Goods	623,839
DXL	Dyno Nobel Ltd	Materials	575,145
SEV	Seven Network Ltd	Media	558,647
IMI	IM Medical Ltd	Health Care Equip & Services	525,166

## Worst Performing Stocks FY2008

ASX Code	Company Name	Sector	Unrealised/ Realised Losses \$
CCP	Credit Corp Group Ltd	Commercial Services	(4,875,551)
RTN.NSX	Ratton Holdings Ltd (listed on NSX)	Diversified Financials	(2,810,987)
WTP	Watpac Ltd	Media	(2,540,619)
REF	Reverse Corp Ltd	Diversified Financials	(2,378,039)
MMS	McMillan Shakespeare Ltd	Health Care Equip & Services	(2,190,107)

# Dividends

*WAM will pay dividends from profits to the extent permitted by law and prudent business practices. Dividends will be franked to the extent that available imputation credits permit.*

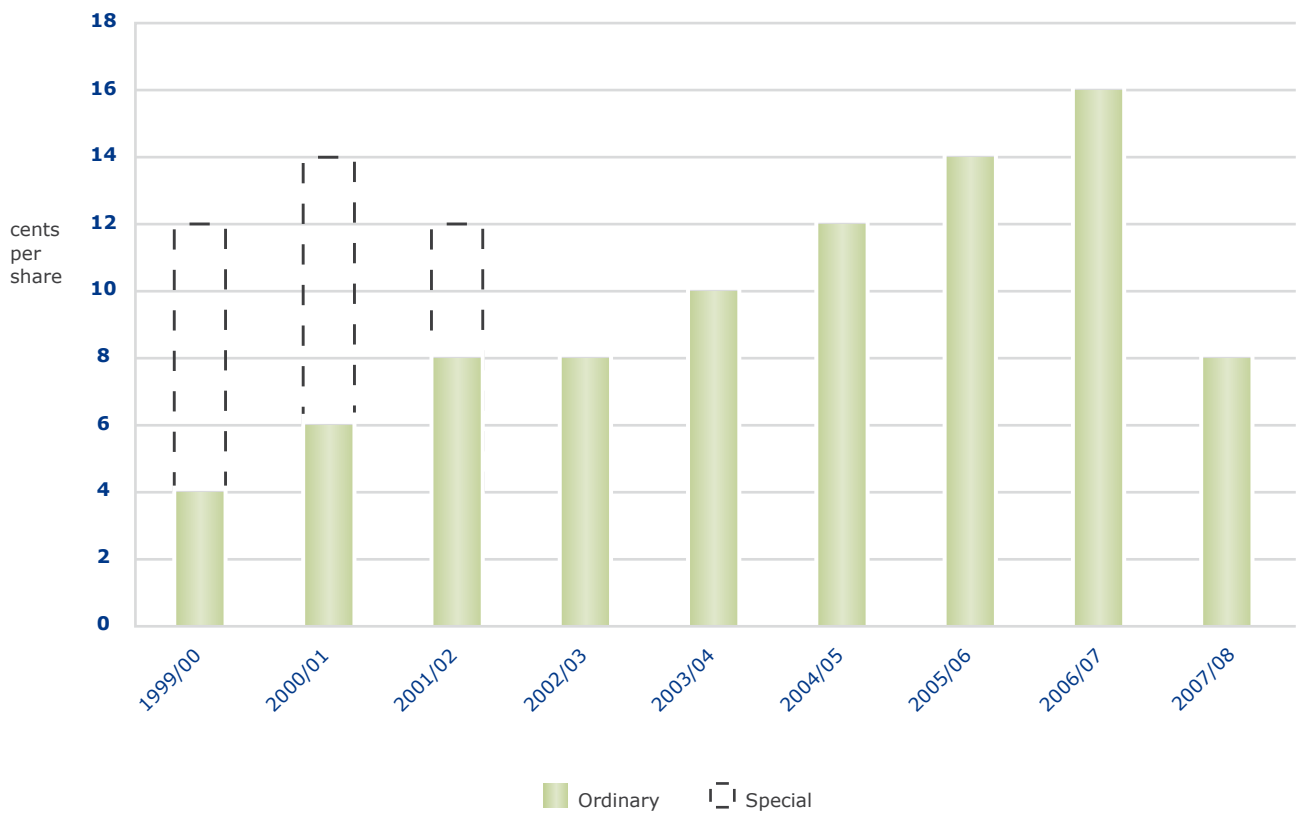
WAM derives its profits from the gains, dividends and interest income it receives from the investments held in its portfolio. Both realised and unrealised gains on investments flow through the profit and loss account of the company due to WAM being classified as a trader for tax purposes.

A trader's retained earnings will go up and down with performance and profits. For example, WAM may buy a company's share for \$1.00 a share. That company's share price may rise to \$2.00 in the first year of ownership. A profit will be booked regardless of whether the shares are sold or not. The following year the shares fall back to \$1.00 and a loss is recorded whether the share is sold or not. This scenario would wipe out any retained earnings, preventing a trader from paying any dividends.

Applying this example to WAM, if retained earnings are wiped out because of a drop in the portfolio value then the Funds ability to pay a dividend is removed in that period. As at 30 June 2008 WAM had negative retained earnings.

A trader like WAM Capital may enjoy profits for many years and in that time has the ability to pay dividends. One poor year when the portfolio drops in value may see no dividend paid.

*As the graph below shows, the Boards' policy is to pay a growing stream of fully franked dividends to shareholders on a six-monthly basis when and if profits are available.*



*The last seven bear markets have, on average, been followed by a rally of 32 per cent for the 12 months following the absolute bottom of the market.*

## Bear Markets

*No one is quite sure where the term bear market comes from. Market participants have been using the big mammal to describe bad times for around 400 years.*

Most of the history books suggest it is from Europe where brokers would sell their bear-skins before they received them, betting the price would fall. The term gained currency in the South Sea Bubble and subsequent collapse in the 1720s and again referred to those people betting on the market falling.

Interestingly, the term “bear market” seems to have been coined well before the phrase “bull market” came into vogue. These days, the two terms are universally accepted terms and quoted by all and sundry. The modern definition of a bear market is when a market has fallen 20 per cent or more.

### The US experience

Since World War II the broad benchmark stock index in the United States, the S&P 500, has experienced 10 bear markets including the current one. As we write (July 3, 2008) the US market, despite its economic woes, has only just entered bear territory with S&P Index declining by 21 per cent since a peak in October 2007. The US market is the key one to look at because it tends to lead all other markets down and of course up when a recovery takes place. It is hard to get precise data on all 9 market declines because of changes to the index. However, we can look closely at the last 7 bear markets to see what has happened. History is usually fairly instructive given that bear markets are initially triggered by negative news but almost invariably become dominated by negative sentiment. The ways human beings behave and act rarely changes.

On average, the S&P 500 Index has fallen 33.71 per cent during the seven bear markets. The average length of the bear market has been 450 days, or about 15 months. The range in size and length of the bear markets is significant. The worst and longest bear market the S&P 500 has experienced out of the last 7 was the 2000 to 2002 period when the index fell from top to bottom 49 per cent over 929 days, or about 2.5 years. This was closely followed by the decline from January 1973 to October 1974, which saw the S&P 500 Index fall 48 per cent over 630 days.

To the shock of many, these two bear markets were more severe than the infamous 1987 crash that saw the S&P 500 Index fall 34 per cent in just 101 days. That bear market was over very quickly and included a 22 per cent fall on October 19.

The least severe bear market was a 20 per cent decline from July 1990 to October 1990, a total of just 87 days.

### The Australian experience

Australia hardly, if ever, goes through a bear market without the US market leading it down. The 1987 crash was the starkest example of this. On October 19, 1987 the US market fell 22 per cent. The following day in Australia the All Ordinaries index collapsed 25 per cent. This marked the end of the powerful bull market from 1983 to 1987, a period that saw Australian stocks reach their most expensive in terms of price to earnings ratios post WWII. The Australian market continued to fall to the start of February and when the dust had

settled, the index had plunged 49 per cent, a significant correction and a lot worse than the US.

Similarly, the Australian market suffered a worse fate to that of the US in 1973 and 1974 on the back of the oil crisis. The Sydney share index (as it was known then) was down almost 52 per cent over a 23 month period.

It does not always mean that Australian markets get hit harder than the US markets. In the decline of 2000 to 2002, the Australian All Ordinaries Index fell only 21 per cent over a 13 month period compared to the US which collapsed 49 per cent over 2.5 years. In that instance, it was a simple case of the US market being much more expensive in terms of price to earnings ratios. The excesses from the tech boom were far great in the US than in Australia.

Turning to the current bear market, the decline of the Australian market to date has once again outpaced the US, falling by approximately 26 per cent since November 1, 2007. Many people have asked why has the Australian market fallen further given the domestic economy has been so much stronger, especially in the resources sector. The simple answer may be that the Australian market enjoyed a much greater bull market from 2003 to the end of 2007, rising close to 150 per cent during the period while the S&P500 index went up by about half that. During this latest bull market, the US market experienced very little price to earnings multiple (PE) expansion while the Australia market saw its average PE ratio expand by about 5 points or 35 per cent.

## The current bear market

So where are we in this bear market? The fall in the US of just 21 per cent is a very mild bear. Given the severity of the last one from 2000 to 2002 it would be quite unusual to have two massive bear markets in the same decade. Not impossible, as we found out in the 1930s, but unlikely. This bear market is only 260 days old or about 8.5 months, which is well below average of the 15 months. In Australia, we are now 8 months into the decline which has seen our market fall by 5.7 per cent more than the US market. If you delve a little deeper the size of the fall has been softened dramatically by the strength of the resources and energy sectors which accounts for about 25 per cent of the overall Australian market. The Industrial, Finance and Property sectors, which account for a large portion of the remainder of the All Ordinaries Index, have fallen by about 40 per cent each.

## Why do markets turn bearish?

So does that mean we are out of the woods or getting close? The answer is probably but there are no assurances. Of course, the worst bear market of all time, happened in 1929 when the Dow Jones Industrial Index collapsed 89 per cent in just 714 days or around 2 years. The reason for the extent of the decline is many and varied but the overwhelming argument was that stock prices got far too high following a 675 per cent rise in the Dow Jones Index from 1921 to 1929. It is probably worth investigating why markets correct. The 2000 to 2002 bear market in the US was the worst in post war history and was symbolized by the collapse of the technology bubble that had started in the early 1990s. The technology stocks were pumped higher and higher with the tech laden NASDAQ index rising close to 700 per cent during the decade. When the music stopped in March 2000 the NASDAQ fell by more than 70 per cent from its peak over 2.5 years. Six years later the NASDAQ remains close to 60 per cent below its peak. The stunning boom and bust among technology stocks flowed over into the broader US market. The basic problem in the broader market was that stocks just got too expensive, especially in the tech, telco and media sectors. The price to earnings ratio for the S&P 500 Index has virtually halved since then.

The 1973 to 1974 bear market was the combination of high valuations and the emergence of high inflation on the back of a higher oil price. Markets don't like inflation because it undermines the value of future earnings and is usually accompanied by higher interest rates.

Blame for the crash of 1987 was primarily levelled at valuations getting too high, not unlike the problem in 1929. As was the situation in 1929 the stock market crash eventually lead to an economic recession which resulted in another bear market in 1990. This one was much milder and quicker given the excessive valuations of stocks had been largely erased by the collapse in 1987.

So a myriad of reasons can cause a bear market to eventuate. The current bear market in the US has been attributed to a combination of a credit crunch and more recently a massive spike in the oil price. Old timers liken the current decline to the problems of 1973 and 1974 when the world experienced the first real oil shock. Back in those days the manufacturing sector was a much greater part of the US economy than it is today, so the impact to date of the latest oil price spike has been somewhat contained.

One thing we can say is that equity markets do not like periods of higher inflation. The oil price spike, along with the rise in other commodities both metals and agricultural, are not seen as a positive for share prices. The big question investors are pondering at the moment is whether this is a period of sustained high inflation? If that is the case, can we assume that equities markets will deliver below average returns for an extended period? In the US the S&P 500 index is trading at similar levels to early 1999. So for nine and half years investors have received no capital gain. Therefore, it is possible to argue that the re-emergence of inflation has already played havoc with equity returns. A similar story unfolded from the late 1960s to the early 1980s when inflation built up a head of steam and interest rates were high. It wasn't until the US Federal Reserve Governor Paul Volker made the decision to kill inflation by lifting rates, did equity markets start to take off again.

## What happens the year following a bear market?

Bear markets do not last forever, as evidenced by the 10 bear markets in the US since WWII. As a result, we should examine the type of returns investors have enjoyed the year following the bottom of the bear market. The last seven bear markets have, on average, been followed by a rally of 32 per cent for the 12 months following the absolute bottom of the market. The size of the rally depends on a host of factors, but not necessarily the size of the bear market. The bear market from November 1980 to August 12, 1982 saw the S&P 500 drop 27 per cent, which is quite a mild bear market. The following 12 months saw the index rise a hefty 58.3 per cent. In contrast the 1987 crash which saw the index slump 34 per cent in less than five months, resulted in a rebound of just 21.4 per cent in the subsequent 12 months.

The key message though is that the 12 months following a bear market is usually a very good period to be in the market. The long term average annual return for the market is closer to 10 or 11 per cent per year, so to return 32 per cent is about three times the average. The harder question to answer is when that absolute bottom is reached? Once or twice a century we might get the horror bear market of 1929, or the type of NASDAQ crash of 2000. Generally, though these are the extremes and to get that kind of fall you need stocks to reach extreme valuations. More normal bear markets are usually associated with slightly stretched valuations and external factors such as rising interest rates, a recessed economy or a spike in oil prices such as we are experiencing now. The current bear markets in the US and Australia are mild so far compared to ones in the past. While certain sectors like Financials, Property and Industrials have been devastated the downturn has not been universal with Energy and Material stocks booming. If we get a sudden downturn in these areas, the Australian market could easily be down 30 per cent before we reach a bottom, a move that would be more in line with most post WWII bear markets. At that stage you might not feel like it but it would be time to start buying equities to enjoy the rally, or so history tells us.

# A closer look at some of our research driven stocks



## Clough Ltd

*Clough Ltd (ASX code: CLO) is an Australian based engineering, construction and maintenance solutions provider with projects predominately located in Australia, Asia, and the South Pacific.*

The group primarily operates in the oil and gas sector, infrastructure, manufacturing and property industries where its earnings are contract based. Some of Clough's major customers include large global oil companies such as Apache and Woodside Petroleum. Established in 1919, Clough listed on the ASX in 1998 where its share price has traded between \$0.30-\$1.00.

Our view on Clough is that it's a "turnaround story" where they have disappointed the market in the past with profit warnings and contract issues which have had a drag on the share price. Harold Clough (whose father founded the business) stepped down from the board in 2007 and a new CEO was identified to orchestrate the turnaround of the business. Subsequently, John Smith was appointed to the role in mid 2007 and brings over 30yrs experience in the oil and gas sector. We regard John's appointment as extremely positive for the company. The move away from fixed price contracts is another positive. Fixed price contracts have hurt the company in the past.

We started accumulating a position in Clough in April 2008 as a research driven investment. The investment idea was thrown up for discussion at our weekly investment ideas meeting and the decision was made to visit the company at their Perth headquarters. Post this visit we were extremely encouraged by the strong pipeline of projects ahead of Clough in the oil and gas space over the next 2-3yrs. Follow up research was conducted via discussions with industry participants, broker analysts along with further company contact which increased our conviction on the stock. Internal modelling was then conducted projecting the company's earnings for the next few years where we valued the company significantly higher than the current share price at the time.

The company has secured over \$1bn of projects in the past 12 months. Recent examples include a \$200m contract win with Apache Energy which is an offshore project installing a 100km pipeline to Apache's onshore gas plant. Clough have also been involved with the clean up on Varanus Island (off WA coast) where the recent gas explosion forced Apache Energy to temporarily shut down its operations which reduced gas supply into WA by around 40%.

The catalysts for the re-rating, we believe will be the acceptance of the new management (12 months old), further contract wins and the finalisation of a historic legal action. We anticipate the business earning EBIT margins of 8-10% going forward. We expect Clough to win a reasonable share of over \$50bn of work projected to be up for tender over the next 2-3 years in the oil and gas sector. We like the stock at its current levels (11x P/E FY09) and believe that the strategic direction the company is heading under the new leadership along with its strong industry position will drive earnings in upcoming periods.



# HFA Holdings Ltd

*HFA Holdings (ASX code: HFA) is an international Funds Management business domiciled in Australia offering various managed fund products at a wholesale and retail level (which are distributed through financial planners).*

Established in 1998, the business concentrates in the ever growing hedge fund's Fund of Funds space (the HFA Funds invest with a range of underlying Fund managers) with over \$9.6bn Funds Under Management as at 30 June 2008. Hedge Funds tend to have a low correlation with traditional equity markets, i.e. they generally do not follow the performance of the sharemarket. The Fund's generally outperform in down markets.

HFA Holdings is a research driven investment where we established a position when the ex major shareholder MFS sold down its stake in May 2007. The catalyst for the investment was the merger with Lighthouse Investment Partners. We have recently added to the position as we believe the next catalyst will be the return of performance fees within the major funds.

In January 2008, HFA merged with Lighthouse Partners (a Florida based fund manager) which significantly increased the size of the business and enhanced its position in the marketplace with experienced sales teams and investment managers.

The HFA share price peaked at \$2.77 in July 2007. Since then, the company has been sold down on a range of factors such as the equity market turmoil leading to a change in earnings outlook and the ex major shareholder MFS selling down. Whilst in March it became clear that HFA would not earn performance fees for the 2008 financial year, our investment case has not changed on the stock.

HFA has been a victim of the negative sentiment towards equity markets during the last 12 months; however its two major funds have outperformed the market during the downturn which was expected given the absolute return focus of the Funds and low correlation to equity markets.

Post valuing the business and using our research ratings template, we continue to like HFA from a valuation perspective with the stock trading on a price to earnings ratio of 9x FY09, essentially the market is pricing the company assuming no performance fees will be earned in 2009. This valuation, compared to other listed peers AMP (13x), Perpetual (14x) and BT Investment Management (14x), looks attractive.

*We see the possibility of performance fees being earned in 2009 as high with potential mandate wins in Asia and Europe providing further share price catalysts going into the next 12 months.*

# A closer look at some of our market driven stocks

## Symbion Health Ltd

*Symbion Health was an Australian based healthcare business with its major operations in Pathology, Radiology, Medical Centres, Pharmacy Services and Consumer.*

Formerly known as Mayne Group, the business was a leading player in the Australian Healthcare sector.

The opportunity (a market driven decision) was a takeover arbitrage i.e. the takeover price being offered (and the price the fund sold out at) was \$4.10 and the shares were trading at a reasonable discount to the offer price.

In early 2007, Primary Healthcare (PRY) first approached Symbion regarding a full takeover of the business valued at \$3.50 per share which was subsequently rejected by Symbion. In the months following, various other approaches were made for the whole business and parts by different players at higher prices compared to what Primary were willing to pay. One such offer came from a Healthscope led consortium (another domestic healthcare provider) for an implied price \$4.30 per share which was accepted by Symbion.

The Australian Competition Consumer Commission (ACCC) approvals were sought in the period following as the Healthscope offer required regulatory approval for it to succeed. In the meantime, Primary Healthcare was buying Symbion shares on market, building a blocking stake with the aim of voting down the Healthscope offer. This action proved to be vital in Primary gaining control. Primary finally made a full cash offer of \$4.10 per share for Symbion which was successful and gained full control in May 2008.

We followed proceedings very closely and noted the Symbion share price trading at a significant discount to the \$4.10 offer price. We established a position in Symbion in January 2008 at an average cost of \$3.89 with just over 3% of the Fund invested in the position. Our view was that we were confident the Primary offer would succeed based on their 44.80% holding in Symbion at the time. We expected the offer to be made unconditional at the 50% acceptance level, which eventuated.

From accepting the bid and thus with a sale price of \$4.10 for our holding, the position provided an annualised return for the Fund of 53% based on its 44 day holding period and we continue to look for similar takeover arbitrage opportunities.

# Everest Babcock & Brown Alternative Investment Trust

*Everest Babcock & Brown Alternative Investment Trust (ASX code: EBI) is a listed investment company Fund of Fund vehicle (EBI invests in 44 underlying funds which make up EBI).*

The company focuses predominately on international shares with a variety of investment strategies ranging from long/short to event driven. First listed in August 2006, the Fund's share price has traded below its Net Tangible Assets (NTA) at various times.

Our investment was a market driven decision and arose in March 2008 where we were offered a line of stock via the Opes Prime sell down. We paid \$2.50 which was a discount to the NTA of the investment portfolio (\$3.86). We continued accumulating stock after this date with greater than 30% discount to NTA still in place. Essentially we were buying \$1.00 of assets for less than \$0.70.

Monitoring and tracking of company announcements revealed that overseas hedge funds were building positions in the stock. Laxey Partners, Carrousel Capital and Weiss Capital were the major culprits behind this buying which saw the stock re rate up sharply past \$3.00 in May 2008. A similar situation occurred in 2007 with another Listed Investment Company, Linq Resources (LRF). As at 30 June 2008, overseas hedge funds Laxey Partners, Carrousel Capital and Weiss Capital together owned 40.4% of EBI.

We sold the majority of our position at \$3.30 as the discount to NTA had narrowed significantly. EBI's share price as at 30 June 2008 was \$3.21. We continue to look for other discount to asset opportunities.

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.

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## What is a Listed Investment Company?

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Most other funds, like managed funds and mutual funds, are open end. 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 cash flows.

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, like managed funds, when stock prices are soaring in a bull market. The manager may then be forced to buy companies at inflated prices. As has proven the case recently, this type of momentum investing can cause a serious destruction of capital when the bull market ends and is replaced by a bear market.

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.



**End of Earth 2  
Bull Market 4**







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# AGM & Shareholder Presentations November 2008

*Please find below details of the upcoming AGM and shareholder presentations.  
A formal invitation will be sent to you in the coming weeks.*

<b>Sydney</b> <b>Wednesday 19 November 2008</b> Lyceum Theatre, Wesley Conference Centre 220 Pitt Street	WIL 11.15am - 12.45pm
	WAA 2.00pm - 3.30pm
	WAM 3.30pm - 5.00pm
<b>Brisbane</b> <b>Thursday 20 November 2008</b> Taldora Room, Mercure Hotel 85- 87 North Quay	WIL 11.30am - 12.30pm
	WAA 1.30pm - 2.30pm
	WAM 2.45pm - 3.45pm
<b>Melbourne</b> <b>Tuesday 25 November 2008</b> State Library of Victoria Conference Centre Village Roadshow Theatre, 328 Swanston Street	WIL 1.00pm - 2.00pm
	WAA 2.15pm - 3.15pm
	WAM 3.30pm - 4.30pm
<b>Adelaide</b> <b>Wednesday 26 November 2008</b> Chandelier Room, The Freemasons Masonic Centre 254 North Terrace	WIL 10am - 11am
	WAA 11am - 12noon
	WAM 12noon - 1pm
<b>Canberra</b> <b>Friday 28 November 2008</b> Johnson Auditorium, Pilgrim House Conference Centre 69 Northbourne Avenue	WIL 10am - 11am
	WAA 11am - 12noon
	WAM 12noon - 1pm



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Wilson Asset Management is an independently owned boutique investment manager established in January 1998 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 40 years. The members of the team include Chris Stott, Natasha Cuffe, Kate Thorley, Zahidi Agar and Tal Bergman.

At June 2008, the WAM Group was the manager of three listed investment companies with funds under management of approximately \$273 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 \$147 million today. WAM predominantly invests 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 \$145 million raised. WIL predominantly invests in small to medium sized companies listed on the Australian Securities Exchange for the long term.

WAM Active Limited is the most recent addition to the group which was listed on 11 January 2008 with approximately \$15 million raised. WAA will be an active investor with high turnover and individual stocks may not be held for extended periods.

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