



15 April 2011

Welcome to our 2011 investment letter in which we outline our current view on the Australian share market. This will be expanded upon in our biannual shareholder presentation which will be held at the end of May 2011. In addition, we have outlined our reasons for calling an extraordinary general meeting to change the Board at the listed mortgage group, RHG Limited. Finally, the letter will discuss some upcoming personnel changes of our management companies.

Market Outlook

The Australian share market has bounced back aggressively following the political upheavals in Northern Africa and the Middle East and the devastation of the Japanese earthquake. These situations have been viewed by markets around the globe as one off events that will pass without any lasting impact on the medium to long term outlook for companies. Moreover, investors believe that neither event will derail the economic recovery taking place in the US and Europe following the global financial crisis of 2008. While we agree the current problems associated with Japan's horrific earthquake will eventually pass, the events in North Africa and the Middle East have proven to be a trigger for higher oil prices. With liquidity being pumped into the global financial system by the US Federal Reserve in the form of Quantitative Easing 2, commodity prices are rallying at a concerning rate. Much of these funds have found their way into assets such as oil, gold, base commodities and various currencies, including the Australian dollar. History tells us that a fast rising oil price has the ability to undermine economic growth in developed nations, which would be a major blow to the US and European economies which are still in the early stages of a fragile recovery.

The Australian share market is at its highest level since September 2008. After the market bottomed in March 2009 the lion's share of the gains have been in the much loved resources sector, especially at the small end of the market. The All Resources Index has risen 75 per cent since March 2009 while the All Industrials Index has lagged with a gain of 50 per cent. The Small Resources Index has risen a remarkable 145 per cent in this time. The drivers for these gains have been two fold – the robust growth from developing nations such as China, and the money being tipped into world markets by America's quantitative easing policies. We are concerned about the rapid rise in commodity prices because of the unintended consequences being felt around the globe. We mentioned above the problem with a rising oil price for developed economies. For developing nations such as China, rising commodity prices, and in particular, rising prices for agricultural goods are

fuelling inflation. As a result, the Chinese Government has been forced to implement tighter lending controls for a range of activities and to lift interest rates. This winding back of liquidity will, if successful, ultimately slow Chinese growth and slow demand for Australian commodities.

In the US, the Federal Reserve is fast approaching decision time on whether to continue with its program of quantitative easing. The current program of \$600 billion is due to conclude at the end of June. Quantitative easing is the process where the Federal Reserve buys government bonds from various private groups including banks, professional investors and insurance companies. This is keeping interest rates near record lows and forces the sellers of the bonds to spend their money in other asset classes such as equities and commodities. The consensus view is the Federal Reserve will put a further spending program on hold to gauge whether the private economy has recovered sufficiently to grow without the assistance of the government. If the Federal Reserve is forced to pump in more money into the world economy then asset and commodity inflation could cause major financial problems around the globe. We wait in anticipation.

Given the sharp upward move in the Australian share market over the last 2 years and the economic hurdles facing the two largest economies in the world, we remain cautious about equities. The greatest concern is for the resources market, which has enjoyed a spectacular run in recent months. On the industrial side of the market, valuations look far more compelling, however, with the domestic economy struggling to grow and the level of interest rates uncertain in the medium term, we remain cautious. We are happy to keep above average cash levels to take advantage of any downturn in the market and investment opportunities as they present themselves.

RHG Limited EGM

On Thursday 1 April 2011, Wilson Asset Management entities, together with entities associated with fellow fund manager Cadence Asset Management, proposed to requisition a meeting to overhaul the board of mortgage group RHG Limited (RHG). The announcement was well publicised and a number of shareholders have asked why we have taken this action.

The decision to call the meeting was not taken lightly. It is a major step to push for a change in the board of a publicly listed company. We would only make such a move if we believe our investment in a company was seriously at risk.

In the case of RHG, the trigger to requisition the meeting was the Chairman's letter, attached to a Notice of Extraordinary General Meeting, to vote on an equal access share buy-back on 28 April 2011. The Chairman's letter stated that once the buy-back is complete, the following would occur:

1. The company intends to seek to have itself delisted from ASX;
2. The company expects to continue its past policy of not paying dividends;
3. The independent director intends to resign as a director and be replaced by a director who is an executive of the Company; and
4. Management will be restructured.

We disagree with all of these moves. In particular, we do not agree with the delisting of the company from the ASX and the policy not to pay dividends. We believe the company may be worth approximately \$1.40 a share. This will become evident over the next two years as the company's mortgage book continues to run off and turn into cash. We also believe RHG's large bank of franking credits is very valuable.

This valuation is approximately a 38% premium to the current share price. It is important to note the proposed buy-back of \$0.88 cents a share is made up of 87 cents dividend, with 30 cents franking credit attached, and 1 cent of capital. This may be of significant value to some investors depending on their tax rate and the cost base.

As the managers of the funds you are invested in, we believe that if the company was delisted and no future dividends paid, this value would be at risk. Under these circumstances we thought it best to seek to keep the company listed on the share market and to ensure franked dividends are paid as cash becomes available from the mortgage book run-off.

To achieve these objectives, we believe the correct course available to us is to push for a major overhaul of RHG's board. We propose to remove 2 of the existing 3 directors and replace them with 3 independent directors who would ensure full value is returned to all shareholders.

The extraordinary general meeting to change the board will take place some time in early June. We are hopeful of a successful outcome and a good return for our shareholders.

Personnel Changes

Wilson Asset Management is pleased to announce the appointment of Mr Chris Stott as Chief Investment Officer. Chris takes the place of Mr Matthew Kidman, who after 13 years with the group, has decided to step down from day to day activities at the end of June 2011 to pursue other interests. Matthew remains on the Boards of WAM Capital Limited (WAM), WAM Research Limited (WAX) and WAM Active Limited (WAA), where he will continue to make a significant contribution. I have enjoyed working closely with Matthew over the last 13 years and I look forward to continuing to work with him at a Board level. Matthew was instrumental in

establishing our valuation model and built a great investment team to carry forward our vision for the future. We all wish him well in his future endeavours.

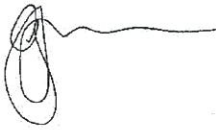
Chris joined Wilson Asset Management in 2006 as a Research Analyst. He has proven himself as an outstanding Analyst and Portfolio Manager. Chris has over 8 years experience in the funds management industry and holds a Bachelor Business and a Graduate Diploma in Applied Finance and Investment. Chris has worked side by side with Matthew for the past 5 years.

In early 2010 we added an Analyst/Dealer to our investment team to focus on our Market Driven investments - Martin Hickson and earlier this year we added Matthew Haupt, a Chartered Financial Analyst with over 6 years experience as a Portfolio Manager and Analyst, to our research capabilities.

We are also pleased to announce the appointment of Ms Kate Thorley as CEO of Wilson Asset Management. Kate is also the Company Secretary for WAM, WAX and WAA. Kate joined the company in 2005 and is a CPA, holds a Bachelor of Commerce, a Graduate Diploma in Applied Finance and Investment and is currently completing Graduate Diploma of Applied Corporate Governance. She has been a significant contributor to the group's overall development.

I look forward to seeing you in May.

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized initial 'G' followed by a horizontal line extending to the right.

Geoffrey Wilson
Chairman