



**WAM RESEARCH LIMITED**  
ABN 15 100 504 541  
**CHAIRMAN'S ADDRESS**  
**ANNUAL GENERAL MEETING**

**Delivered by Geoffrey Wilson at the Annual General Meeting of shareholders held at Lyceum Theatre, Wesley Centre, Sydney on Wednesday 16 November 2011.**

**Introduction**

Good afternoon, welcome to the eighth Annual General Meeting of WAM Research Limited (WAM Research). Thank you for your attendance and support.

My name is Geoff Wilson, I am the Chairman of the Board of Directors and I will be chairing this meeting today. Before I commence today's proceedings I would like to introduce the other members of the Board – Matthew Kidman, John Abernethy and Julian Gosse.

Also joining us to address questions regarding the Financial Statements are our auditors, Joe Shannon and Sylvia Wallace from Moore Stephens.

**Financial Performance**

On behalf of the Directors, I am pleased to report your company produced a sound result for shareholders while navigating difficult and volatile markets.

WAM Research's operating profit before tax, for the year to 30 June 2011 was \$9.2 million, and operating profit after tax was \$9.4 million. The result reflected a significant increase in dividends and interest income received. The Board and the Manager believes the appropriate measures for performance are:

Portfolio Investment Return

The first performance measure is used to show how the Investment Manager has performed. This measure is a before all tax and costs and can be compared to an index which is also a before tax and costs measure. For the year to 30 June 2011, WAM Research's gross portfolio increased 17.5%, while the S&P/ASX All Ordinaries Accumulation Index increased by 12.2%, S&P/ASX Small Industrials Accumulation Index increased 15.7% and the S&P/ASX 300 Industrials Accumulation Index increased 9.2%. WAM Research outperformed each index by 5.3%, 1.8% and 8.3% respectively.

### Net Asset Return

The second measure of performance is the movement in underlying net assets (NTA) after taxes and all costs. This performance shows the change in the value of the assets which belong to the shareholders over the 12 month period. Corporate tax, being 30%, is the most significant item of difference between the gross and the net asset performance. The franking credits attached to this corporate tax paid are available to be distributed to shareholders through fully franked dividends along with franking credits received from dividend income. WAM Research's after tax NTA, adjusted for dividends, increased 13.3% for the year to 30 June 2011.

### Share Price Return

The third level of performance is the share price return. The share price, adjusted for dividends paid to shareholders during the course of the year, rose 26.4% for the year to 30 June 2011. This significantly outperformed the NTA performance due to the closing of the share price discount to NTA.

The above performance measures of WAM Research were achieved while being on average 80.5% invested in equities, with the balance of 19.5% being held in cash and term deposits with Australian banks. The return on our equity portion of the portfolio was 20.4%, while the return on our cash was 5.4%.

Overall the updated investment strategy has resulted in greater flexibility which is already providing benefits to shareholders. The Board and the Manager are committed to this strategy, and acknowledges and thank shareholders for their support.

The Manager in this transition year, on a one off basis, waived the \$743,180 performance fee. This has resulted in an increase in the company's NTA by the corresponding amount. The Board is grateful to the Manager for their gesture of waiving the performance fee in a year where they outperformed the market.

Set out below is the performance of WAX since listing to 31 October 2011. The performance data is a before all expenses, fees and taxes measure and is used as a guide to how the company's investment portfolio has performed against the S&P/ASX 300 Industrials Accumulation Index and the S&P/ASX Small Industrials Accumulation Index which are both before tax and expenses measures.

Gross Performance	WAM Research	S&P/ASX 300 Industrials Accumulation Index	Outperformance	S&P/ASX Small Industrials Accumulation Index	Outperformance
1 Year	+5.0%	-1.1%	<b>+6.1%</b>	-4.6%	<b>+9.6%</b>
3 Years	+9.6%	+5.5%	<b>+4.1%</b>	+7.9%	<b>+1.7%</b>
5 Years	-0.8%	-2.1%	<b>+1.3%</b>	-5.6%	<b>+4.8%</b>
Since Inception	+3.9%	+6.2%	<b>-2.3%</b>	+4.7%	<b>-0.8%</b>

*Note: The figures in the above table represent annualised performance.*

For the 4 months to October 2011, the fund has declined 2.8% versus a decline in the S&P/ASX 300 Industrials Accumulation Index of 2.3%, and a fall of 5.3% in the S&P/ASX Small Industrials Accumulation Index.

### **Dividends**

The Board's policy of paying a growing stream of fully franked dividends continued during the financial year with a 15% increase in the full year dividend to 6.0 cents per share fully franked. This consisted of a fully franked 3.0 cents per share interim dividend and a fully franked 3.0 cents per share final dividend.

Dividend payments will be made with consideration to cash flow, cash holdings and available franking credits. Providing the company is deemed solvent by the Board, WAM Research should always be in a position to pay dividends. WAM Research currently has franking credits received and receivable which allow it to pay a dividend equivalent to 3.5 cents per share.

### **Remuneration Report**

Executive remuneration has been a heavily debated topic this AGM season and is at the forefront of many investors' minds with the introduction of the Two Strikes Rule. We believe the new rule encourages shareholder engagement and holds Boards accountable to their shareholders. Some recent research shows that companies that receive a "strike" on average underperform the ASX200 -1.5% one week after and -3.1% one month after a strike.

In terms of the Remuneration Report for WAM Research, I draw your attention to the fact that it relates to four directors. The fees range between \$10k and \$27.5k per annum. The reason for the increase this year is to bring a retiring executive in line with the other non-executive directors (NED). This is the first time fees have been increased since the fund floated.

### **Outlook**

We believe that equity markets around the world will continue to be influenced by a decade of deleveraging. This will result in lower growth expectations and lower price earnings ratios.

Themes emerging from the latest reporting season were negative and included a weakening consumer environment, rising cost pressures, the impact of the higher Australian dollar, and increasing regulatory risk as can be seen by the introduction of the Resource Rent Tax and the Carbon Tax. In this environment, we believe the risk of earnings expectations not being achieved in the current year is high.

With this difficult domestic environment and significant global uncertainty, the short term outlook for equities looks bleak. In these difficult times significant opportunities usually present themselves. WAM Research's portfolio currently holds equities of 73% with the remaining 27% in cash on deposit with Australian banks. This provides us with considerable flexibility to invest as opportunities arise.

In the year ahead, we envisage Research Driven opportunities to continue to present themselves as valuations are at low levels. The challenge will be the correct forecasting of earnings growth.

We continue to focus on growth companies with an emphasis on identifying stocks that are under researched and undervalued. These companies tend to be small to medium sized industrial companies listed on the ASX.

### **Appreciation**

On behalf of the shareholders, Board and the staff at Wilson Asset Management, we would like to take this opportunity to thank Matthew Kidman for his invaluable contribution at Wilson Asset Management over the last 13 years. We wish him every success in his future endeavours and look forward to continuing to work with him in his capacity as Director.

I would also like to thank the team at Wilson Asset Management for their considerable efforts and my fellow Board members for their valued contributions.

Finally, I extend my thanks to our loyal shareholders for their continuing support.