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# WAM Research Limited (WAX)

Chairman's Address – Annual General Meeting

28 November 2014

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**Delivered by Geoff Wilson at the Annual General Meeting of shareholders held at Wesley Centre at 220 Pitt Street Sydney on Friday 28 November 2014.**

## Introduction

Good morning and welcome to the eleventh Annual General Meeting of WAM Research Limited (WAM Research). My name is Geoff Wilson, I am the Chairman of the Board of Directors and I will be chairing the meeting today. I would like to start by introducing my fellow Board members, Matthew Kidman, John Abernathy, Kate Thorley and Chris Stott. Kate is also our Company Secretary. Unfortunately, Julian Gosse is an apology. In addition, I would like to introduce our audit partner from Moore Stephens, Scott Whiddett, who will be available to address questions relating to the Company's Financial Statements.

The 2014 financial year was a good year for WAM Research. The Company recorded a solid profit and delivered shareholders an increased fully franked full year dividend of 7.5 cents with a total shareholder return of 24.0%. During the period, the investment portfolio increased 20.5%, outperforming the market while maintaining an average cash weighting of 36.3%.

## Solid FY2014 financial results

In August, the Company announced its full year results reporting an operating profit before tax of \$21.3 million (as compared with \$22.2 million in FY2013) and an operating profit after tax of \$15.8 million (as compared with \$16.7 million in FY2013). The nominal decrease in profit is attributable to the performance of the investment portfolio which increased 30.4% in the previous corresponding period against an increase of 20.5% in FY2014. The solid result was achieved while maintaining a conservatively structured investment portfolio and demonstrates the success of the investment approach implemented by our experienced investment team.

## Dividend growth

The Board is pleased to have delivered shareholders a fully franked full year dividend of 7.5 cents per share, an increase of 7.1% on the previous year, which represents an annualised fully franked dividend yield of 6.6% based on the 25 November 2014 closing price.

The ability to pay fully franked dividends remains an important distinction and significant benefit of the Listed Investment Company (LIC) model compared with other managed funds. Your Board remains committed to its policy of paying an increasing stream of fully franked dividends to shareholders, providing the Company has sufficient profit reserves and franking credits and it is within prudent business practices. Following the payment of the final dividend for the financial year, the estimated profit reserve was 24.0 cents per share and the franking account had a balance of \$2,558,695.

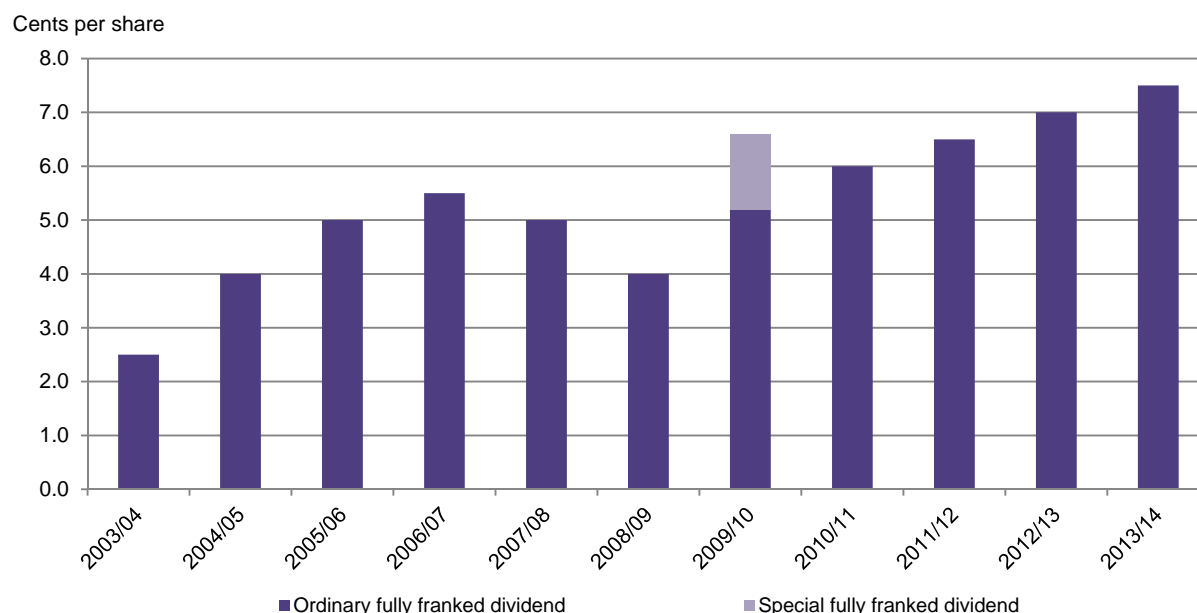
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## WAM Research dividends since inception



## Investment portfolio outperformance

Applying the Company's disciplined investment approach, WAM Research's investment portfolio increased 20.5%, outperforming both the S&P/ASX All Ordinaries Accumulation Index ('Index') which rose 17.6% and the S&P/ASX Small Industrials Accumulation Index, which rose 13.1%. WAM Research's investment portfolio outperformed the Index while maintaining an average equity exposure of 63.7%.

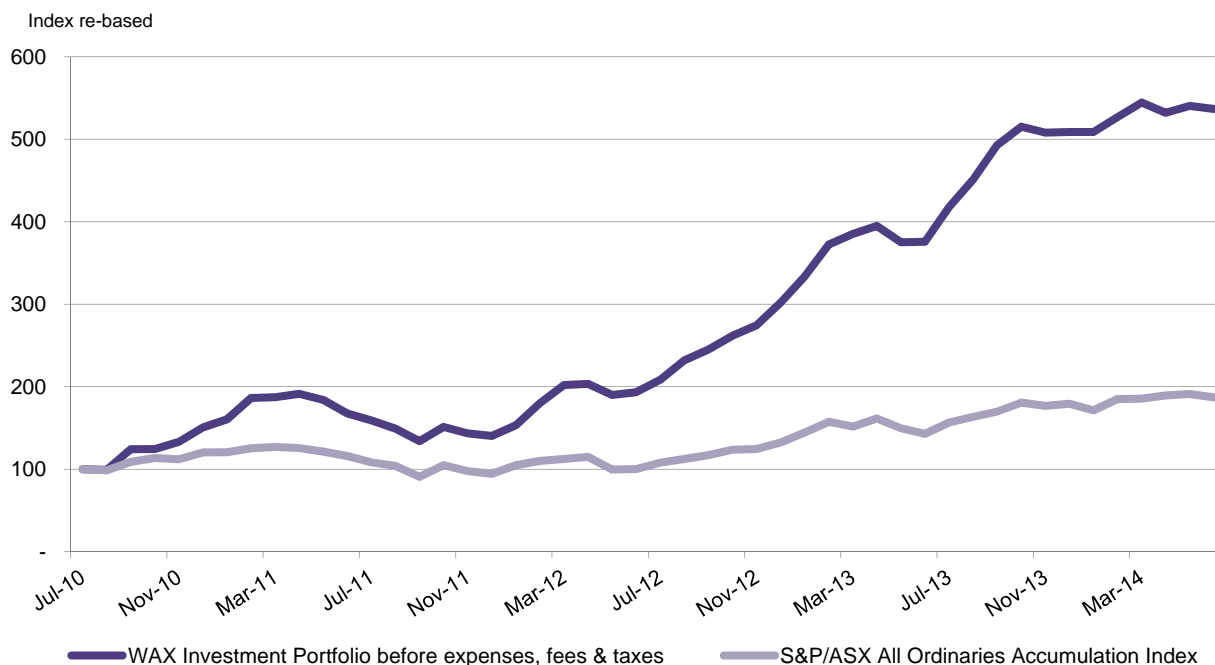
Since the revision of WAM Research's investment strategy in July 2010, the Company's investment portfolio has delivered an average annualised 17.9% return, as compared with the Index which increased 10.3% on an annualised basis over the same period.

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## Outperformance against sharemarket



## Capital management initiatives

During the 2014 financial year, WAM Research undertook a number of capital management initiatives, including a one for two bonus option issue to acquire ordinary shares in the Company. The objective of these capital management initiatives is to increase shareholder value by continuing to grow the Company's assets, lower fixed costs per share, increase the Company's relevance in the market and increase the liquidity of WAM Research's shares.

## Capital protection strategy

Inherent in WAM Research's investment process are numerous mechanisms for managing and mitigating risk. WAM Research's flexible mandate allows the investment team to make investments only when we believe it will be beneficial to our shareholders. Our ability to hold cash provides us with an important additional tool to effectively manage risk. Since the change in investment strategy, the investment portfolio has had an average cash weighting of 32.7%, and currently WAM Research has a cash weighting of 33.5%.

## Listed Investment Company (LIC) benefits

WAM Research's LIC model has significant advantages for investors making it a superior investment vehicle to gain exposure to a diversified portfolio of Australian shares. The LIC structure provides a permanent and stable closed-end pool of capital allowing the fund manager a total focus on managing money and the ability to make rational investment decisions based on sound investment principles. The LIC structure benefits also include the ability to pay fully franked

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dividends over time and, as a listed company, a rigorous corporate governance regime providing transparency and accountability for investors.

The introduction last year of the Future of Financial Advice ('FOFA') Reforms has helped raise the awareness of the benefits of LICs. This has been evidenced by the numerous LIC Initial Public Offerings and capital raisings over the last 12 to 18 months. At a company level, WAM Research has seen a marked increase in interest from investors including SMSFs which now account for around 50% of our shareholder base.

## WAM Research trading at a premium to its NTA

Over time, WAM Research and other Listed Investment Companies trade at premiums and discounts to their assets. Recently, some LICs have been trading at significant premiums, while the overall discount for the sector has narrowed. Since mid-2013, WAM Research's shares have traded at a premium to its underlying assets with the shares currently trading at a 3.7% premium. We believe this has been driven by several factors, including the recent increase in popularity of LICs as an investment vehicle and a greater focus by investors on consistent fully franked dividends – an important advantage of LICs not offered by ETFs and unlisted managed funds.

For existing shareholders who bought shares when they were trading at a discount or at NTA, they would generally welcome an increase in the value of the shares relative to their assets as it increases the value of their investment. Trading at a premium can enhance an LIC's ability to raise capital. When an LIC trades at premium, new investors are buying shares in excess of the value of the underlying portfolio of assets. In our view, premiums are often short-lived with history showing that LICs normally return to trade at or around their NTA.

## Making a difference

WAM Research's investment manager, Wilson Asset Management is dedicated to making a positive difference to our shareholders and the broader community in a number of ways.

We believe that all shareholders, retail and institutional alike, should have the opportunity to participate in primary equity capital raisings, such as placements, equally. Wilson Asset Management has sought to advocate for the rights of retail investors, making two separate submissions to the Financial System Inquiry ('FSI'). We have argued that retail investors should be on a 'level playing field' with institutional investors by being allowed to participate in equity raisings, such as placements, without the requirement of a prospectus. David Murray, FSI Chair, is expected to provide an update on the FSI on 8 December.

Also this year Wilson Asset Management played an important role in launching the Future Generation Investment Fund Limited (FGX) which will donate one per cent of its assets each year to children's charities, particularly those supporting children at risk. The Wilson Asset Management team has supported this unique company through the recent successful \$200 million capital raising and providing ongoing communication with shareholders, company secretarial, funds management, administrative and support functions.

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Wilson Asset Management also continues to support a range of not for profit organisations at a community level, supporting various valuable causes through financial and in-kind support. All donations are made on behalf of the investment manager.

## Market outlook

In the last six years, a significant factor that has driven global equity markets has been the excessive liquidity injected in the system by world monetary authorities. Even though America has halted its Quantitative Easing policy, excess liquidity is still being pumped into the system notably in Japan and Europe. My main concern is what will happen to equity markets when the easy money policy finishes. Given the high valuations that have resulted from the excessive global liquidity, I believe world equity markets are vulnerable.

We continue to be cautious in our current outlook for the Australian equity market. Slow economic growth and the risk to the unwinding of excess global liquidity, lies at the core of this view. When the excess liquidity has been removed and the domestic economy shows signs of sustained growth, a multiplier effect on corporate profitability will again drive stock valuations. We are extremely well positioned with \$53.4 million (33.5% of assets) in cash to take advantage of opportunities as and when they present themselves.

## WAM Research outlook

With a flexible investment mandate, a disciplined investment approach and no debt, WAM Research remains well positioned to capitalise on opportunities in the market as they arise. With a cash weighting of 33.5%, the investment portfolio is conservatively structured and the investment team takes a disciplined approach to mitigating risk.

We are confident that we can continue to find opportunities irrespective of market conditions. For the 2015 financial year to date, WAM Research's investment portfolio has performed strongly, up 9.8% and outperforming the All Ordinaries and Small Ordinaries Accumulation Index while being on average 72.0% invested.

## Appreciation

I would like to thank the team at Wilson Asset Management for their considerable efforts. I would like to thank the management team led by Kate Thorley, CEO, and Chris Stott, CIO, who have been ably supported by the investment team – Senior Equity Analysts Matt Haupt and Martin Hickson and Equity Analyst, Tobias Yao – the accounting and operational team – Linda Vo, Lillie Johnson and Mary-Ann Baldock – and the Corporate Affairs Team, Meredith Hemsley and Melanie Shaw.

I would also like to thank my fellow Board members for their valued contributions during the year. I am greatly appreciative of the Board's efforts and guidance throughout the year.

Finally, on behalf of the Board and the Wilson Asset Management Group, I extend my thanks to our loyal shareholders for their continuing support. I would also like to welcome those of you who are new WAM Research shareholders this year and have joined the WAM Club.

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