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# WAM Research Limited (WAX)

Chairman's Address – Annual General Meeting  
24 November 2015

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**Delivered by Geoff Wilson at the Annual General Meeting of shareholders held at the Wesley Centre at 220 Pitt Street Sydney on Tuesday 24 November 2015.**

## Introduction and welcome

Good morning and welcome to the twelfth Annual General Meeting of WAM Research Limited ('WAM Research' or 'Company'). Thank you for joining us and thank you for your continued support of the Company. My name is Geoff Wilson, I am the Chairman of the Board of Directors and I will be chairing the meeting today. I will begin by introducing my fellow Board members, Matthew Kidman, John Abernethy, Julian Gosse, Kate Thorley and Chris Stott. Kate is also our Company Secretary. I would also like to introduce our audit partner from Pitcher Partners, Scott Whiddett, who will be available to address any questions relating to the Company's Financial Statements.

The 2015 financial year was a very successful year for WAM Research and we are exceptionally pleased with the performance of the Company's investment portfolio which rose 22.8%, achieving record outperformance of 17.1%. The total shareholder return for the year was 10.9% and our shareholders received a record fully franked dividend of 8.0 cents a share.

## Outstanding FY2015 financial results

In August, the Company reported a 24.7% increase in operating profit before tax for the full year to \$26.6 million (as compared with \$21.3 million for FY2014) and a 23.1% increase in operating profit after tax to \$19.5 million (as compared with \$15.8 million for FY2014). The rise in profit is due to the strong performance of the investment portfolio, which returned 22.8% compared with 20.5% for the previous corresponding period.

## Record dividend growth

The Board is pleased to have again delivered shareholders an increased fully franked full year dividend of 8.0 cents per share, up 6.7% on the previous year and representing an annualised fully franked dividend yield of 6.4% based on yesterday's closing price.

An important distinction and a major benefit of WAM Research's Listed Investment Company ('LIC') model, is the ability to pay shareholders consistent fully franked dividends. 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. After the payment of the final FY2015 dividend, the estimated profit reserve was 27.2 cents per share and the franking account had a balance of \$7,263,789.

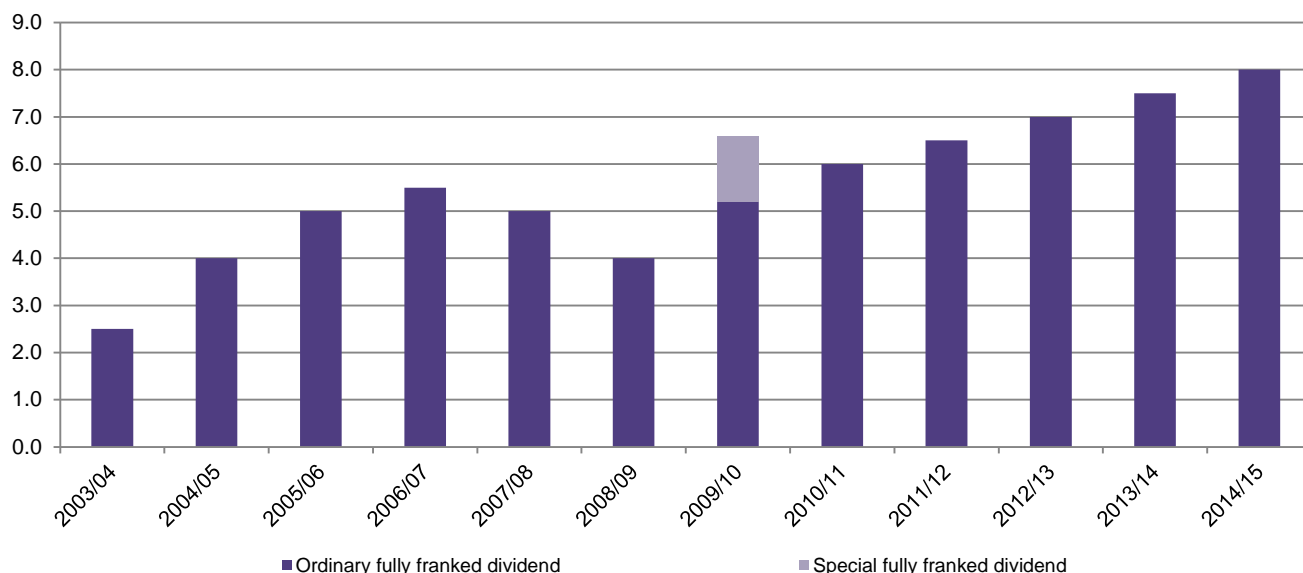
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## WAM Research dividends since inception

Cents per share



## Record outperformance of investment portfolio

Applying WAM Research's disciplined investment approach, the investment portfolio increased 22.8%, outperforming the S&P/ASX All Ordinaries Accumulation Index ('Index') by a record 17.1%. The investment portfolio also outperformed the S&P/ASX Small Ordinaries Accumulation Index by 5.7% and the S&P/ASX Small Industrials Accumulation Index by 7.2%. The record outperformance is almost double the previous record outperformance of 9.7% in FY2013 and was achieved with an average equity exposure of 63.1%. This result was achieved during a period when we grew our capital base.

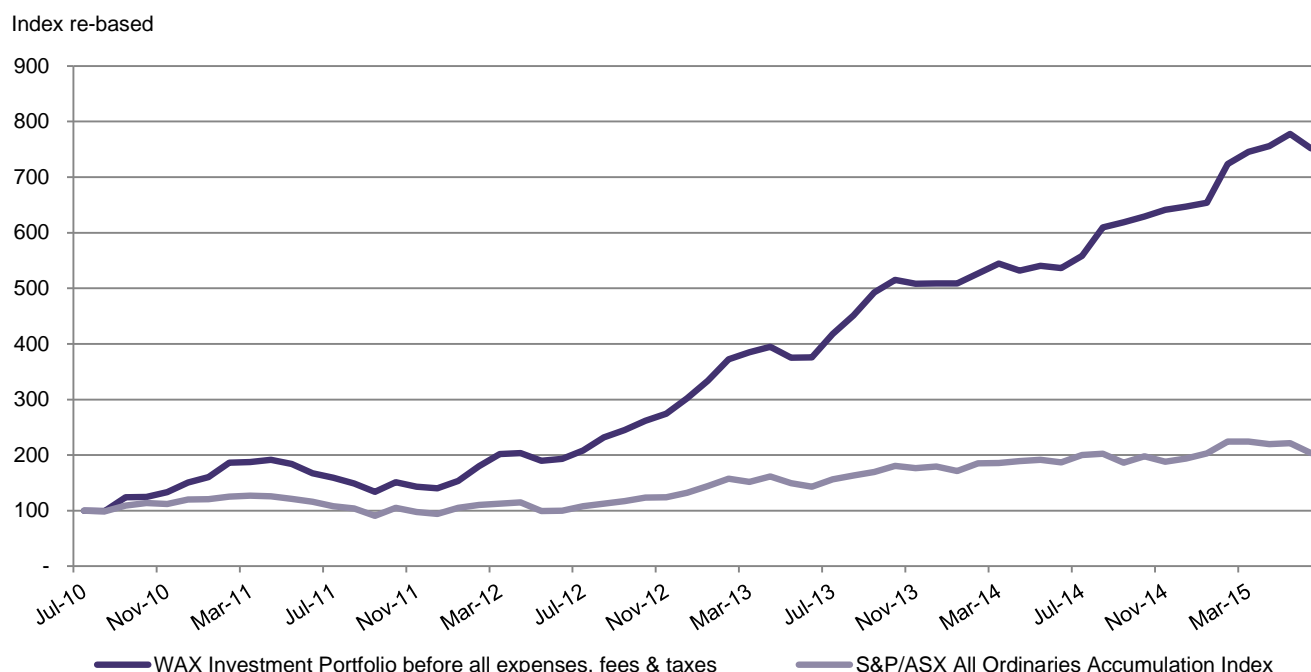
Since WAM Research's investment strategy was revised in July 2010 to June 2015, the Company's investment portfolio has delivered shareholders an average annualised return of 18.8%, compared with the Index which has increased 9.4% annualised over the same period. This performance track record demonstrates the success of our rigorous and disciplined approach to investing.

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## Outperformance against sharemarket



## Capital management initiatives

During the 2015 year, WAM Research raised \$28.3 million through the one-for-two Bonus Option Issue announced in October 2013. The options expired on 17 June 2015 with 23.6 million options exercised. WAM Research's increased size creates a range of benefits to its shareholders including a reduction in administration costs (as a percentage of assets), greater liquidity and also increases the Company's relevance in the market, which can give rise to more investment opportunities.

## Capital protection strategy

WAM Research's investment process possesses several mechanisms for managing and mitigating risk. The Company's flexible mandate allows the investment team to invest only when we believe it will be beneficial to our shareholders and will deliver the maximum return while taking the minimum amount of risk. The ability to hold cash is another important tool for effectively managing risk. Since the change to WAM Research's investment strategy, the investment portfolio had an average cash weighting of 34.3% and a cash weighting of 40.1% as at 23 November 2015.

## Listed Investment Company (LIC) benefits

As a LIC, WAM Research's structure has significant benefits for our shareholders offering a superior investment vehicle for gaining exposure to a diverse portfolio of Australian equities. The LIC structure provides a permanent and stable closed-end pool of capital that gives our investment team the ability to focus solely on managing money and to make rational investment decisions based on sound investment principles.

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Importantly, the LIC structure provides the opportunity to pay shareholders fully franked dividends over time. As a listed entity, an LIC must comply with rigorous corporate governance principles, providing investors with transparency and accountability.

Investors and the investment community alike have a greater awareness of the benefits of the LIC structure as evidenced by a surge in capital raisings and initial public offerings in the sector over the last 24 months. The popularity of the LIC model has been helped by the introduction of the Future of Financial Advice Reforms ('FOFA') in 2013 and the strong growth in self-managed superannuation funds (SMSFs). WAM Research's LIC structure has proven to be particularly popular among SMSFs, which account for the majority of our shareholders.

## Making a difference

Wilson Asset Management (WAM Research's investment manager) is passionate about making a positive difference to our shareholders and the community. In FY2015 the team at Wilson Asset Management worked towards this objective in a number of ways.

In 2014, Wilson Asset Management established the Future Generation vehicle that provides a permanent and growing stream of funding to Australian children at risk. Following the success of Future Generation Investment Company (ASX: FGX), which listed in 2014, Wilson Asset Management played a pivotal role in the launch of Future Generation Global Investment Company (ASX: FGG), which listed in September this year.

Due to the generous pro bono support of fund managers and service providers, FGX and FGG can each donate 1.0% of their net tangible assets each year to selected Australian non-profits working to improve the lives of young Australians. Wilson Asset Management's team gives ongoing pro-bono support to these innovative companies providing funds management, marketing, communications with shareholders, company secretarial, administrative and support functions.

Wilson Asset Management continues to engage in public debate and advocacy regarding issues impacting WAM Research and its shareholders. In 2015 we made a submission regarding the Federal Government Tax Discussion Paper arguing that the dividend imputation system benefits Australia's financial system in a number of ways and should therefore not be removed or adjusted. We are heartened that the Division Head of the Tax White Paper Task Force noted in August that, amongst the submissions, there was a consensus view that dividend imputation should be retained. We will continue to engage in this debate on behalf of shareholders in the 2016 financial year.

In addition to these activities, Wilson Asset Management provides ongoing support through financial and in-kind contributions to a range of not-for-profit organisations. Through a popular new internal initiative, our staff can identify causes they wish to support and Wilson Asset Management makes a donation on their behalf. All donations are made on behalf of the investment manager.

## Market outlook

We have a conservative outlook for Australian equities over the next 12 months and remain confident we can continue to identify investment opportunities that deliver positive performance. The housing boom appears to have peaked signaled by a drop in auction clearance rates and the mining sector remains weak.

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In contrast, retail stocks are benefitting from a lower interest rate environment. We are monitoring the impact on consumer sentiment and the broader economy of recent rate rises by the banks and in our recent meetings with companies, executives have consistently reported that economic conditions remain patchy.

Despite below trend economic growth over the last nine years, our investment team has continued to find opportunities in the market. We believe that in this subdued economic environment investment opportunities will continue to present themselves. With \$85.7 million in cash (40.1% of the investment portfolio) the investment portfolio is in a position to seize on opportunities as they arise.

## WAM Research outlook

In an environment where economic growth is anemic, the investment team is focused on identifying companies with compelling and dynamic growth trajectories. These include companies with exposure to innovation and technological developments, as well as companies set to benefit from macroeconomic conditions, such as the low Australian dollar and Chinese consumption of Australian health products.

The current financial year has started strongly in a challenging environment with WAM Research's investment portfolio up 13.2%, outpacing the market by 13.3% while being 59.9% invested as at 23 November 2015. With a current cash weighting of 40.1% (as at 23 November 2015), a flexible investment mandate and no debt, WAM Research is well positioned to continue to perform.

## Appreciation

I would like to thank the Wilson Asset Management team for their ongoing efforts and hard work. Specifically, I would like to thank the management team – CEO Kate Thorley and CIO Chris Stott who have been supported by the investment team – Portfolio Manager Matt Haupt, Senior Equity Analyst Martin Hickson and Equity Analyst Tobias Yao – the accounting and operational team – Sarah Maddox, Martyn McCathie, Linda Vo, Lillie Johnson, Colette Connolly, Samantha Acret and Alison Shave – and the corporate affairs team – James McNamara, Meredith Hemsley and Alexandra Hopper.

In addition, I would like to thank my fellow Board members for their invaluable contributions to WAM Research during another significant year of growth for the Company. I'm grateful for the Board's ongoing guidance and expertise.

Finally, on behalf of the Board and Wilson Asset Management, thank you to our loyal shareholders for your continued support. To those shareholders who have joined WAM Research in the last year, welcome to the Wilson Asset Management family.

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