

29 October 2018

Dear Fellow Shareholders,

Has the record-breaking bull run in US equities come to an end?

Over the last decade, central banks have pumped an unprecedented level of liquidity into the economic system, lowering interest rates to record levels and driving asset valuations to extremes.

The recent stock market rout has wiped out the 2018 calendar year gains in the US, while China's equity market has fallen by nearly 30% from its peak earlier this year and Australia has entered a technical correction. I believe we are in the final stages of the longest US bull market in history. What concerns me most is that all bear markets are extremely painful.

Fortunately, I have worked through a number of bear markets before and as an investor I am excited about the opportunities that will present themselves. During these periods patience is the key.

We expect the negative effects of the bear market will be significantly worse if Labor wins office. We believe Shorten and Bowen's plans will have dramatic implications for the equity and property markets, resulting in the first economic recession in Australia for 27 years.

Given our cautious outlook, we have steadily increased our listed investment companies' (LIC) cash weightings to withstand increasing volatility and ensure necessary liquidity in our portfolios, which unfortunately will not make us immune to the effects of an equity bear market.

As you know, we have been fighting against Labor's policy to scrap the current dividend imputation system and tax Australian shareholders twice. The "savings" to be collected under Labor's proposal will come from low-income earners and self-funded retirees with modest SMSF balances. Many of our 80,000 shareholders fall into this category and we will not rest until Labor drops this policy.

Tomorrow, I will be addressing the Alliance for a Fairer Retirement System about this issue and on Friday we will make our submission to the House of Representatives Standing Committee on Economics Inquiry into the implications of removing refundable franking credits. We will also lodge our petition of more than 25,000 signatures and almost 2,000 stories from individuals who have described how they would be affected. I encourage you to [share our petition](#) to maintain pressure on the Government, Opposition and Crossbenchers to uphold the current dividend imputation system.

Last Friday, WAM Capital succeeded with its takeover offer for Wealth Defender Equities (ASX: WDE). The bid will result in the issuance of 39.0 million WAM Capital shares at a premium to its pre-tax net tangible assets. WAM Capital now controls 95.26% of all WDE shares and will proceed with compulsory acquisition. The WAM Capital Board of Directors is currently conducting a strategic review of WDE.



Last Tuesday, we lodged our proposal to manage Blue Sky Alternatives Access Fund (ASX: BAF) and reposition the LIC to provide investors with access to a diversified portfolio of alternative assets selected by market-leading investment managers. Our proposal would provide BAF shareholders with access to Wilson Asset Management's expertise in LICs as well as more favourable conditions than the other proposal announced to shareholders. We look forward to the Independent Directors and their independent expert reviewing the merits of both proposals and allowing shareholders to vote on our proposal.

In other news, Chris Stott will soon retire from his role as CIO. Chris has decided to spend more time with his young family and will continue to work with us as a WAM Capital and WAM Microcap Director. I have had the pleasure of working closely with Chris for 12 years. I have particularly enjoyed his passion for markets and focus on delivering returns for shareholders, which he has certainly achieved in his time at Wilson Asset Management. I am looking forward to continuing to work with Chris at Board level and everyone at Wilson Asset Management wishes him well in his future endeavours.

Over the years, we have built an outstanding team of 11 investment professionals, with our first-class Lead Portfolio Managers responsible for our LICs' investment portfolios: Catriona Burns (WAM Global), Matthew Haupt (WAM Leaders), Oscar Oberg (WAM Capital, WAM Research and WAM Microcap) and Martin Hickson (WAM Capital, WAM Active and WAM Microcap). Our Lead Portfolio Managers are supported by an exceptional team comprising Portfolio Managers Tobias Yao and John Ayoub, Equity Analysts Matthew Nicholas, Nick Healy and Sam Koch, and Dealer Cooper Rogers.

As Chairman and CIO, I will continue to work closely with the investment team to ensure we remain focused on providing shareholders with strong risk-adjusted returns derived from undervalued growth companies using the same investment process that has delivered over 20 years.

We are excited to see you at our [Shareholder Presentations](#) in the next few weeks. It will be interesting to see how the market fares between now and then and I look forward to discussing it with you over a cup of tea.

If you have any questions please contact me on (02) 9247 6755.

Happy investing,

Geoff Wilson AO
Chairman
Wilson Asset Management