

# WAM CAPITAL LIMITED

ABN 34 086 587 395



20 January 2011

## MEDIA RELEASE

***"PORTFOLIO OUTPERFORMS AND 25% INCREASE IN DIVIDEND"***

### WAM CAPITAL LIMITED RESULTS SUMMARY FOR THE HALF YEAR ENDED 31 DECEMBER 2010

- Gross portfolio increased by 16.8% for the 6 months to 31 December 2010
- Profit before tax \$24.9m for the 6 months to 31 December 2010
- Profit after tax \$18.9m for the 6 months to 31 December 2010
- A 25% increase in the interim fully franked dividend to 5.0 cents per share
- Pre tax net tangible assets increased 15.7%\* to 174.6 cents per share

\*adjusted for dividends

## WAM CAPITAL LIMITED

WAM Capital Limited (WAM) today announced an operating profit before tax for the half year to 31 December 2010 of \$24,929,085 and an after tax profit of \$18,917,037. The 16.8% increase in gross assets over the period was a 2.3% outperformance of the S&P/ASX All Ordinaries Accumulation Index. The main contributor to this strong performance of the fund was a re-rating of a number of our positions, as the market more fully valued the growth prospects of these medium sized companies.

Over the period, revenue from dividends and interest increased by 91.6%. This was due to a significant increase in dividends received from takeovers and an increase in interest income from higher cash balances and higher interest rates.

*"As we enter 2011, the prospect of higher interest rates over the course of the year are expected to put a cap on the market – restraining earnings growth and potentially contracting price earnings ratios" said Geoff Wilson, Chairman of WAM Capital.*

*"Our focus has always been on stock selection and we believe that the portfolio is well positioned to perform in the current challenging market environment" said Geoff Wilson, Chairman of WAM Capital.*

The objectives of the fund are to provide a growing stream of fully franked dividends, provide capital growth and preserve capital. Geoff Wilson said *"It has been very pleasing that the fund increased 16.8% whilst having on average 53.3% of its assets invested in equities. Capital preservation throughout the GFC has been a focus, as shown in our 3 year performance of 6% per annum while the market fell 4.9% per annum."*

### **DIVIDENDS**

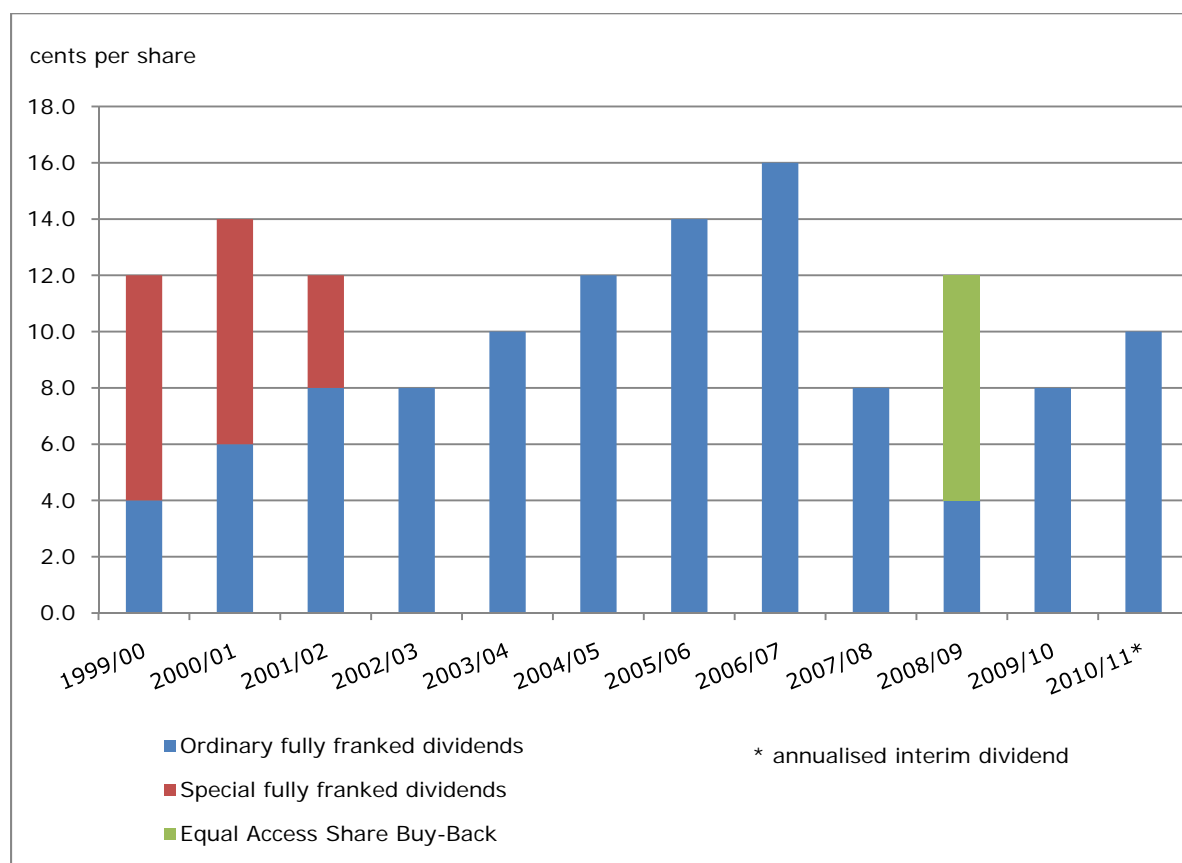
On 10 January 2011 WAM announced a fully franked interim dividend of 5.0 cents per share. This is a 25% increase on last year's interim dividend and is to be paid as follows.

Ex Date:	28 February 2011
Record Date:	4 March 2011
Payment Date:	11 March 2011

The dividend re-investment plan will be operating at no discount. The current share price (\$1.585 being closing price 19 January 2011) is a 9.2% discount to the 31 December 2010 pre-tax NTA. To participate in the dividend re-investment plan, please send your election to our share registrar no later than the 4 March 2011.

## **DIVIDENDS CONTINUED**

The Board is committed to paying an increasing stream of fully franked dividends to shareholders provided the company has sufficient franking credits, and it is within prudent business practices. Dividends are paid on a six-monthly basis. Government legislation introduced in June 2010 now enables companies to pay dividends if the company is deemed solvent. Dividend payments will not be reliant on reported profit and retained earnings as it was previously. Rather it will be with consideration to cash flow, cash holdings and available franking credits. Essentially, WAM will always be in a position to pay dividends providing it is solvent.



## **NET ASSET BACKING**

The net tangible assets (NTA) on listing in August 1999 were 98.0 cents a share.

Below is a table of the company's position as at 31 December 2010. This is after the payment of 118.0 cents a share in fully franked dividends since listing, the exercise of a free \$1.20 option, the partial exercising of a one for one bonus option issue at \$1.55 a share, the partial exercising of a one for one bonus option issue at \$1.80 a share and a 5.8% equal access share buy-back at \$1.38 a share.

NTA before tax	174.63c
NTA after tax and before tax on unrealised gains	174.17c
NTA after tax	166.28c

## **PERFORMANCE**

The gross portfolio increased 16.8% for the 6 months to 31 December 2010, while the S&P/ASX All Ordinaries Accumulation Index increased by 14.5%, the S&P/ASX Small Ordinaries Accumulation Index increased 29.9% and the S&P/ASX Small Industrials Accumulation Index increased 18.8%. The after tax NTA, adjusted for dividends, increased 11.9% while the share price, adjusted for dividends rose 30.0% for the 6 months to 31 December 2010. At 31 December 2010 equities made up 63.9% of the company's assets with the remainder in fixed interest and cash.

<b>Annualised Performance as at 31 December 2010</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>	<b>10 Years</b>	<b>Since Inception (Aug-99)</b>
WAM Capital Limited*	+16.5%	+6.0%	+12.8%	+13.7%	+17.7%	+19.5%
S&P/ASX All Ordinaries Accumulation Index	+3.3%	-4.9%	+4.8%	+10.1%	+8.7%	+8.7%
<b>Outperformance</b>	<b>+13.2%</b>	<b>+10.9%</b>	<b>+8.0%</b>	<b>+3.6%</b>	<b>+9.0%</b>	<b>+10.8%</b>

\*The change in the gross portfolio before all expenses, fees and taxes.

## **PERFORMANCE CONTINUED**

Set out below is the performance of WAM since listing to 31 December 2010 on a financial year basis 1 July to 30 June. The performance data excludes all expenses, fees and taxes and is used as a guide to how the company has performed against the S&P/ASX All Ordinaries Accumulation Index which is before tax and expenses.

<b>Financial Year</b>	<b>Gross Portfolio*</b>	<b>S&amp;P/ASX All Ordinaries Accumulation Index</b>	<b>Outperformance</b>
1999/2000	+33.3%	+11.3%	+22.0%
2000/2001	+30.2%	+8.9%	+21.3%
2001/2002	+32.7%	-4.5%	+37.2%
2002/2003	+12.3%	-1.1%	+13.4%
2003/2004	+27.3%	+22.4%	+4.9%
2004/2005	+13.9%	+24.8%	-10.9%
2005/2006	+27.4%	+24.2%	+3.2%
2006/2007	+44.1%	+30.3%	+13.8%
2007/2008	-23.0%	-12.1%	-10.9%
2008/2009	-3.0%	-22.2%	+19.2%
2009/2010	+29.8%	+13.8%	+16.0%
YTD 2010/11	+16.8%	+14.5%	+2.3%

\* The change in the portfolio before all expenses, fees and taxes.

## **MARKET OUTLOOK**

The consensus among Australia's top share market strategists is the S&P/ASX All Ordinaries Index will rise approximately 14 per cent in 2011. This number is based upon a survey in the Australian Financial Review on January 4 of the top 10 strategists in the local market. If proven to be correct this would mean we could expect a total return, including dividends, of close to 18 per cent which is well above the long term average of around 11 per cent. This bullish outlook is a significant improvement on 2010, which saw the S&P/ASX All Ordinaries Accumulation Index track sideways before closing up for the year by 3.3 per cent. The market's performance in 2010 was characterised by a strong 10 per cent gain by the resources sector and a 7 per cent decline by the top 200 industrial stocks. The hottest sector for the year was the small resources sector which leapt 30 per cent, mainly in the last four months of the calendar year.

The 2011 bulls argue the year ahead should see solid gains based on reasonable stock valuations, continued strong demand for resources from South East Asia, in particular China, and an acceleration of the economic recovery in the US. All of these arguments are a continuation of the themes that dominated Australian markets from early July in 2010.

## **MARKET OUTLOOK CONTINUED**

We are however much more circumspect. We agree that industrial stocks are reasonably priced at around 13 times forecast 2011 earnings, however, the prospect of higher interest rates through the course of 2011 could put a cap on earnings growth. If this is indeed the case, we will see little upside in share prices for industrial stocks coming from price to earnings multiple expansions. In fact, it is quite possible that multiples may contract if the Reserve Bank of Australia is forced to aggressively raise interest rates due to a tight labour market and a massive expansion from the resources sector. While a sharp hike in rates is unlikely, it cannot be totally discounted. The best result for the industrial market would be for official interest rates to be on hold for the course of 2011.

Another recent event that will impact economic growth in 2011 is the widespread flooding in Queensland and Victoria. While the full effects of this natural disaster are yet to be known, current estimates predicts a loss of 1.1% from GDP or \$13 billion.

We also believe that China, the engine for above average world growth during 2010, may not provide such a buoy for the local economy in 2011. In recent months, the Chinese Government has been forced to lift interest rates and restrict lending practices to try and cool the economy. These measures have failed to have an immediate impact and inflationary pressures have emerged. As a result, China will be forced to keep raising interest rates, which should eventually ease inflationary pressures and ratchet down economic growth from over 10 per cent to possibly as low as 7 per cent. In turn, the much loved Australian resources sector, may find it difficult to repeat its stellar performance of last year. If this scenario plays out, the Australian dollar may also retrace some of its substantial gains of 2010. This is not to say, the China economic miracle is over, but it may need to have a health check in 2011.

The prospect of the US economy continuing to recover in 2011 is more likely. Share market bulls are likely to be frustrated by the pace of the recovery given the moribund housing market. However, low interest rates should support economic growth of around 3 to 3.5 per cent for 2011. This may not lower unemployment dramatically but it will be supportive of company earnings and equity prices. Leverage to this recovery can be found in Australian listed companies that have major operations in the US. An example of this would be building materials company James Hardie.

All of these factors should see equities struggle to move significantly higher in 2011. We do believe the drivers of the market will change during the course of the year with the resources sector easing back, especially at the red hot small end of the market, while industrials, especially those with exposure to the US economy

could perform strongly. We have moved to position our portfolio to take advantage of this view.

## **PORTFOLIO STRUCTURE**

As at 31 December 2010 the major securities held in the portfolio were:

<b>Code</b>	<b>Company</b>	<b>Market Value \$</b>	<b>Market Value as % of Gross Assets</b>
RKN	Reckon Limited	8,852,995	4.8%
RHG	RHG Limited	5,394,632	2.9%
MMS	McMillan Shakespeare Limited	5,334,115	2.9%
TAL	Tower Australia Group Limited	5,193,544	2.8%
PRY	Primary Health Care Limited	3,932,095	2.1%
CSR	CSR Limited	3,464,160	1.9%
JHX	James Hardie Industries Se	3,429,670	1.9%
MYS	Mystate Limited	3,157,666	1.7%
SGN	STW Communications Group Limited	3,005,340	1.6%
FLT	Flight Centre Limited	2,713,410	1.5%
SGI	Signature Capital Investments Limited	2,464,857	1.3%
TGA	Thorn Group Limited	2,450,558	1.3%
PRV	Premium Investors Limited	2,363,822	1.3%
SAI	SAI Global Limited	2,135,795	1.2%
MAQ	Macquarie Telecom Group Limited	2,020,220	1.1%
BRG	Breville Group Limited	1,955,044	1.1%
BKL	Blackmores Limited	1,939,868	1.1%
IRE	IRESS Market Technology Limited	1,920,609	1.0%
CBA	Commonwealth Bank of Australia	1,827,720	1.0%
ELI	Emerging Leaders Investments Limited	1,781,027	1.0%
NWS	News Corporation	1,780,440	1.0%
NAB	National Australia Bank Limited	1,777,500	1.0%
ANZ	Australia and New Zealand Banking Group	1,751,250	1.0%
WBC	Westpac Banking Corporation	1,749,038	1.0%
NWS	News Corporation	1,780,440	1.0%

We continue to look for companies with strong earnings per share growth, trading on attractive earnings multiples, which are well positioned in growth industries and have proven management.

We would like to thank our investors for their continued support. We look forward to seeing you at our shareholder presentation in May where we will give you a further update on the Company's performance and the broader markets.