WENTWORTH WILLIAMSON

Quarter ending 31 March 2018

As you are aware, the objective of the Wentworth Williamson Fund (the Fund) is to generate superior returns to our competitors over the long term by acquiring a select portfolio of value-driven investments. We aim to protect our clients' principal while growing capital well above the prevailing cash rate over the medium to long term.

A REMINDER - INVESTMENT APPROACH

The prices of shares tend to vary far more than the value of the underlying businesses in the short term. Some of the factors that contribute to this are:

- Economic sentiment
- General market sentiment towards equity investments as a category
- Management changes
- Country-specific issues
- Market's view that the business model is broken (at least in the short term) or conversely overly optimistic expectations; and
- Lack of sell-side research due to size or free float in the shares of the company or conversely the 'follow the pack' mentality often driven by mainstream, widely read analysis and research

We aim to invest in companies that in our view fall below their underlying value (often as we have a contrary view to the market for the reasons mentioned) and sell when the price rises above our assessment of fair value.

The key aspect of our investment process is determining the underlying or intrinsic value of the businesses. We therefore spend a great deal of time developing differentiated information that helps us determine the intrinsic value of a target company. This involves rigorous research and analysis of the industry and competitors, in order to construct a detailed picture of the dynamics of the market and investment being reviewed.

By not limiting ourselves to any market capitalisation size or sector and by allocating more time to research and investing (rather than trading) we believe this strategy gives us a structural competitive advantage to generate returns in excess of our benchmark.

The current composition of the portfolio is set out in the Appendix on page 7.

MARCH 2018 QUARTERLY REPORT

Returns (%)	WWF Fund	S&P/ASX 300 Accumulation Index	Relative Performance
Cumulative			
Since inception	52.6%	32.5%	**20.1%**
Annualised			
Since inception	9.9%	6.5%	**3.4%**
Latest 4 years	10.9%	6.3%	**4.6%**
Latest 3 years	10.1%	3.9%	**6.2%**
Latest 2 years	6.2%	11.2%	**-5.0%**
Latest 1 year	4.8%	2.9%	**1.9%**

Returns are net of all fees, include income, assume reinvestment of distributions and exclude any spreads that might be payable on some transactions. Inception date is 30 September 2013.

We are not normally affected as much as the major indices in a weak market environment, however, our unit price was materially negatively impacted by two of our key assets in the quarter, CSG Limited (CSV) and TPI Enterprises (TPE). Accordingly, in a quarter where the S&P / ASX 300 AI declined 3.78% we declined a further 2.67% to the index.

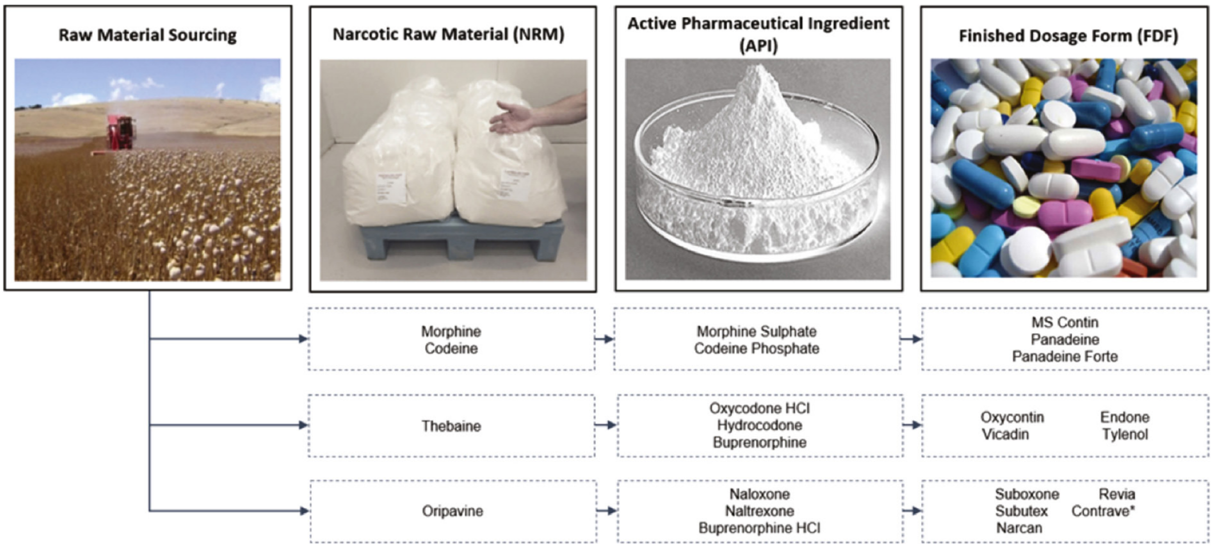
The share price declines offered us an opportunity to increase our holdings in each company by approximately 50% in both cases. We believe both companies offer considerable upside potential. In this communication we elaborate on our TPE investment case.

TPI Enterprises (TPE)

The history of the company up until now is very much about one individual's self-belief and determination, despite some incredible odds stacked against him over the years. Jarrod Ritchie, the founder and CEO, almost immediately started the journey by taking on one of the world's largest companies to pursue his vision; and when they sued him, he won.

Jarrod was previously head of Research & Development and Business Development at GlaxoSmithKline's opiates division in Victoria and left in December 2003 to set up a similar operation without the large corporate overhead and over-the-top bureaucracy that usually plagues large multinational companies. Soon after he was sued by GSK, alleging intellectual property infringement in a court battle that reached the Supreme court and lasted 5 years. Jarrod even had to sell his house to fund himself as GSK attempted to wear him down with their deep-pockets but as mentioned previously, eventually he won the case. It was during the court case that he realised he would not be able to continue his original plan of developing Narcotic Raw Material (the first step from poppies to pills) the traditional way because the upfront capital required was too high. Out of desperation and through a long trial and error process, he discovered a new way of producing NRM at a significant discount to the industry peers.

Before we delve into specifics about the company we will provide a quick overview of the industry and the opportunity that exists in the market. TPE operates in the narcotics industry i.e. the process that converts poppy straw into pills for human consumption.



Source: TPI Enterprises

The traditional way of converting poppy straw into NRM is a long and arduous process developed in the 1930's that uses toxic solvents, which are then emitted into the atmosphere, and generates large quantities of waste water containing pollutants that require treatment. TPE's process is water based, requires a fraction of the capital needed for a traditional factory and has much fewer steps.

TPI	Competitors
$20 million for 100 tonne facility	$100-150 million for 100 tonne facility
1/3rd of FTE* compared to competitors	Toxic solvents
No toxic solvents	Wastewater treatment required
No wastewater treatment	3 year construction and approval timeline
Modular Expansion capability	Old technology
•FTE = Full Time Employees	

Source: TPI Enterprises

This industry has some of the highest barriers to entry we have ever seen. Prior to TPE joining the club of only 8 global producers in the World, the last licence granted for the manufacture of NRM was approved in 1977.

The niche 'cottage' like industry is currently in a state of flux with the NRM price at decade lows with incumbents generating losses as relative newcomer TPE is adding capacity to the market and gaining market share as the lowest cost producer.

The industry should be considered as an upside-down pyramid in both numbers of participants and industry value. Effectively there are now only 7 participants left in the NRM category, approximately 25 in the API sector and hundreds in the Final Dosage Form (FDF) sector.

The addressable market for NRM is approximately USD350 million and growing, as well as about USD70 million for poppy seeds that come as a by-product of the harvesting process.

The next step in the process is a more straightforward one to convert NRM into Active Pharmaceutical Ingredient (API). This is a larger market than NRM but the barriers to entry are lower, importantly 80% of the cost of the API is the NRM. TPE's competitive advantage at the NRM stage flows through to the API sector. This sector is highly commoditised and therefore price sensitive, an opportunity that TPE can take advantage of. The final step is to combine the API with sugar, preservatives and other ingredients to make a stable pill ready for human consumption, this market is much larger than the API and NRM markets. TPE have access to the entire value chain through their plants in Victoria and Norway, and since their cost advantage is at the critical first stage in the cycle, they are well positioned to gain significant market share throughout the cycle. Another interesting point is the regulatory barriers through the UN and foreign governments. Most countries allow the importation of NRM for production of the API/ FDF, while some ban the import of API, all allow the importation of the FDF. TPE can again offer various products to various markets depending on the regulatory barriers relevant to each individual market.

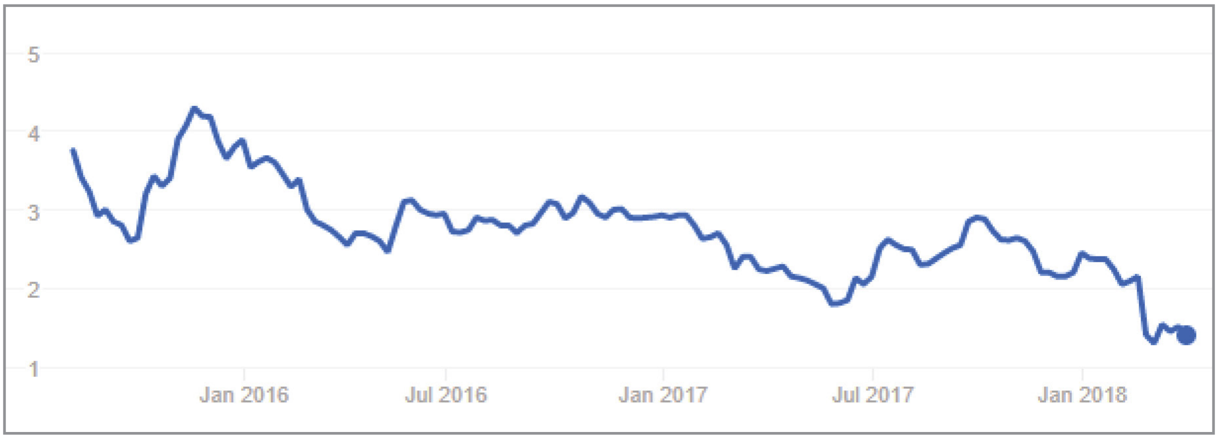
There has already been a lot of change in the normally docile NRM market since TPE's entry. When TPE started operations, there had been no corporate change in this industry since WW2. In the 10 years since TPE was licenced (2007), GSK and Johnson & Johnson's (J&J) initial response was to grow excessive crops to restrict supply to TPE in Tasmania (then the only licensed state to grow poppies), flood the market with product to push down prices and force TPE out of business, however they were ultimately unsuccessful. In (2015) TPE obtained growing licences in mainland Australia and GSK and J&J exited their operations by selling to private equity and an Indian pharmaceutical company. Both companies, we understand, are now currently generating losses. TPE has continued to diversify their growing base, gaining licences in most Australian states and Europe, becoming the first producer to have growing operations in the Northern and Southern hemisphere. More recent developments include attempts by Private Equity owned Tasmanian Alkaloids, (previously the J&J subsidiary, producing up to 40% of the world's NRM in Tasmania) to solicit buyers for the business[1] and an attempted sale of the Spanish NRM producer Alcaliber[2]. Sanofi has a 40% stake in Alcaliber and usually contracts them to supplement some of their production. It has been speculated that the toll deal announced by TPE and the licence to import from France suggests that Sanofi has started to shift some production contract processing to TPE instead. This is a clear sign to us that competitors are already seeing the writing on the wall that TPE is likely to continue to undercut incumbent producers on price and take market share.

It is important to remember that according to the World Health Organisation (WHO) estimates there are 5 billion people who have little or no access to pain relief medicines, including 5.5 million terminal cancer patients and millions of others suffering from acute illness or end-of-life suffering. This is an untapped market for TPE product.

Additionally, the over-prescription of pain relief, specific to the US market, has led to a large increase in demand for anti-addiction drugs which TPE is well placed to take advantage of. Each anti-addiction drug uses 3 of the NRM molecules that are the key ingredient in the opioid, therefore TPE has 3x the cost advantage.

1. http://www.afr.com/street-talk/us-private-equity-backed-narcotics-player-considers-asx-listing-20170718-gxdz88
2. https://www.bloomberg.com/news/articles/2018-03-06/cannabis-producer-canopy-is-said-to-bid-for-spain-s-alcaliber

TPI Enterprises share price since listing



Source: Google Finance

Investors in a private company are unlikely to feel like they are losing money if the underlying business continues to make meaningful incremental gains year after year, even if those gains are a little lower than initial expectations. In the listed market, a company's share price can move every working day and the company value, determined by traders, is heavily influenced by short term news flow meeting expectations.

In the meeting investor expectations department, TPE has failed miserably with the share price trading over 60% below the 2015 listing price on the ASX. Many companies list on the ASX prematurely and TPE was most certainly not ready for a public listing in 2015. This is one of the reasons why we started to investigate it. However, we anticipate that this year is a defining one for TPE as revenue is forecast to double to approximately $50m (much of this contracted already) and the business is expected to be EBITDA positive for the first time. Over the next three years the company should generate large profits as increasing poppy straw tonnes through the manufacturing plant leverages over group fixed overheads.

It's extraordinary to think that today the market values the company at a 35% discount of what it was in 2015 (there are more shares in issue today) despite the fact the business is now vertically integrated with route to market from manufacturing NRM to API and then pills, the only NRM manufacturer that can source raw material from both hemispheres (and therefore significantly reduced supply risk), revenue multiples of what it was back in 2015 and with a positive EBITDA outlook this fiscal year for the first time. The real exciting result is that over our investment horizon of three to four years we believe we will end up with a defensive asset completely immune to the economic cycle with significant upside.

LOOKING FORWARD

Fund Exits since inception (Sept 2013)

Stock	Date of Last Sale	Exit	Detail
Metcash	Dec 2014	On Market	Sold out of Metcash at loss as we felt our initial thesis on Australian Food & Grocery was wrong
Event & Hospitality and Entertainment	Sep 2015	On Market	On market sales realising a considerable capital gain
Coats Group	Nov 2015	On Market	Due to the delisting of the Group on the ASX and NZE we were forced to sell our position at a small loss. Over the following year the share price doubled as our investment thesis played itself out
Broadspectrum	May 2016	Takeover	Ferrovial trade buyer for cash, realising a large gain
Nuplex	Sep 2016	Takeover	Allnex trade buyer for cash, realising a considerable gain
Worley	Aug 2016	On Market	On market sale realising a considerable gain
UGL	Oct 2016	Takeover	CIMIC trade buyer for cash
Collins Food	Dec 2016	On Market	On market sale realising a considerable gain
Hunter Hall	Feb 2017	On Market	On market realising a large gain
Grays eCommerce	Aug 2017	Takeover	Eclipx Group trade buyer for shares, realising a large gain
Royal Wolf	Oct 2017	Takeover	General Finance Corporation for cash
Eclipx Group	Nov 2017	On Market	Post due diligence we sold all shares on market

It is important to note that we are not stock traders, we have only exited 12 investments in over 4 years. Perhaps not surprising, considering our deep value investment style, almost half of our exits are from takeover offers at meaningful premiums to last trading prices. It would not be unreasonable to anticipate similar outcomes going forward with lumpy increases in our unit prices from time to time on the back of takeover offers.

It's hard to predict with any degree of certainty when we will realise the next positive run in our unit price. However, with the considerable upside potential we see in a number of our assets, we think our unit price is offering the best value we have seen since the inception of our trust.

Yours faithfully,

James Williamson
Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 31 March 2018

Company Name	% of Fund
Capital Goods	9.4%
Utilities	8.6%
Software & Services	7.2%
Pharmaceuticals	6.8%
Capital Goods	6.7%
Industrial Services	6.0%
Consumer Staples	5.6%
Energy	4.5%
Financials	4.1%
Other Investments	18.3%
Total Equity Exposure	**77.2%**
Cash	22.8%
Total	**100%**

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