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. 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 5.

JUNE 2017 QUARTERLY REPORT

Returns (%)	WWF Fund	S&P/ASX 300 Accumulation Index	Relative Performance
Cumulative			
Since inception	53.3%	26.8%	**26.5%**
Annualised			
Since inception	12.1%	6.5%	**5.5%**
Latest 3 years	14.0%	6.6%	**7.3%**
Latest 2 years	12.7%	7.2%	**5.6%**
Latest 1 year	11.5%	13.8%	**-2.3%**

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.

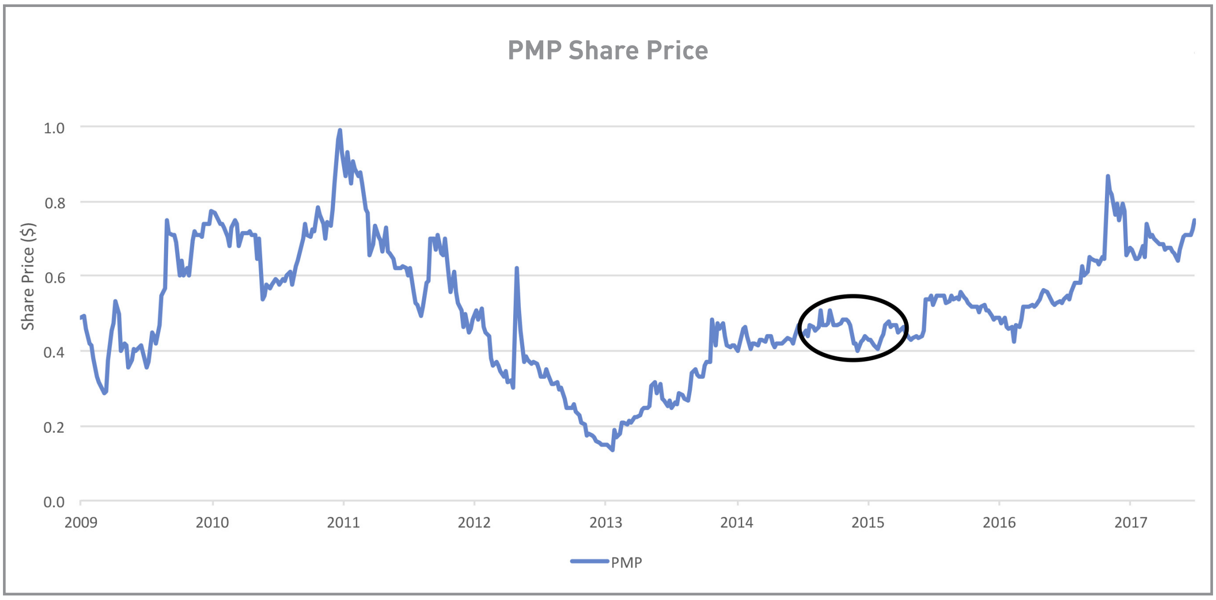
Our Fund performed well during the quarter ended 30 June, outperforming the market by 6.8%. A number of our investments had positive developments during the period:

- In May, Grays eCommerce Group **(GEG)**, Australia's largest online auctioneer and a relatively new investment in our Fund, received an all share offer from Eclipx Group, a market leader in vehicle fleet leasing. The transaction is currently scheduled to complete in mid-August.
- Also in May, a Chinese fund with strong distribution connections in the country invested capital in Australian Vintage Limited **(AVG)** and signed an exclusive distribution agreement for all brands other than McGuigan. A reminder that McGuigan is already represented in China by COFCO International. China's current contribution to AVG is small but the future potential over the medium to long term could be substantial.
- In June, a smaller holding for the Fund, Impedimed Limited **(IPD)**, recently obtained the CE mark (the designation required to market their product in Europe) for SOZO. The company has already started selling into some approved markets.
- Finally, after the June quarter end, Royal Wolf Holdings Limited **(RWH)** received a board recommended takeover offer at $1.83 per share, representing a circa 40% premium to recent trading. This news has delivered a positive start to the new financial year given the company is one of our largest holdings.

Notwithstanding the potential macroeconomic dangers ahead, we head into the new Financial Year with cautious optimism based on the strength of our underlying assets and calibre of new investment ideas brought forward to us for review by our investment team.

As is our tradition to provide an in-depth review of a portfolio investment in each quarterly report, we take this opportunity to focus the spotlight on PMP Limited **(PMP)**. Although PMP has been a staple in our portfolio for several years, we last discussed our investment thesis in more detail back in March 2015. At the time, the share price was 45cps. Today PMP is ~70cps and our enthusiasm for the company remains as strong as it was in our earlier communication. In this letter, we explain why recent transformational events in the Australian heatset print market have significantly improved the outlook for the industry and specifically for PMP. In our opinion, at current share price levels PMP is one of the most attractive investment opportunities on the ASX. The company offers significant upside potential at considerably lower risk levels than many other more expensive opportunities on offer.

PMP LIMITED (PMP)



Source: FactSet
*** Circle denotes WWF entry**

In our March 2015 Quarterly Report we explained that the earnings declines in PMP's divisions with structural challenges such as directory printing, magazine printing and magazine distribution had reduced to such an extent over the years that by the time we investigated the company, its risk profile had shifted dramatically. Today directory printing no longer exists and magazine printing and distribution in Australia only contributes a small proportion of PMP's profits. Over recent years most of PMP's profits and future have depended primarily on the catalogue heatset print division in Australia and New Zealand, in which PMP had a core sustainable business. Year after year independent research consistently highlighted how catalogues continued to play a meaningful role as a useful media channel for business to consumers which has meant that, contrary to popular belief, the size of the catalogue market in terms of volume has remained relatively stable over the last 10 years. The most recent Australian Catalogue Association Industry Report again supports this thesis with catalogues ranking first, second and third across 17 market segments. In particular, the research highlighted that catalogues continue to be the dominant media channel for alcoholic beverages, children's wear and groceries by a very large margin.

The only problem back in 2015 was that the Australian heatset market was suffering from considerable overcapacity, with too many industry players producing sub-optimal returns. Of course, the two major customers, Coles and Woolworths, took advantage of this miserable competitive dynamic and acted as price setters, driving prices down year after year as existing players slowly suffocated each other in a death spiral. To put this into context, over the past five years, excess capacity has ripped out $500 per tonne from prices. Thankfully during this time PMP was the market leader with a national presence and was blessed with a battle hardened but rational management team and board of directors. Most importantly to us, our entry price was low, entering the stock on an equity price to free cash flow of ~5x (with limited debt). Due to their leading market share position and strong balance sheet, we felt PMP would emerge at the other end of a rationalised industry one way or another. Australia has a healthy capitalist culture and we felt it was more likely industry participants would act sensibly when faced with obvious choices, especially owners of private companies with their own capital at risk. We felt confident industry consolidation was going to happen and that ultimately the ACCC would not block the necessary corporate action.

Our patience was rewarded in February 2017 with the ACCC releasing their final decision to approve the PMP-IPMG merger. Pleasingly, this was not the only successful corporate action in the industry; within 12 months, the competitive dynamic shifted from weak to strong as the Australian heatset print industry moved from five players to a duopoly

(PMP and ASX listed IVE Group Limited). As a result of this consolidation, capacity in the market is set to reduce to around 650 thousand tonnes per annum, almost halving capacity for the industry. Although our PMP investment case is entirely predicated on realising cost synergies from the merger with IPMG, the changed competitive landscape in the Australian heatset printing industry means it is not inconceivable that the pricing dynamic will be flipped the other way (even ever so slightly). PMP management estimate that every $100 per tonne increase in selling prices (or ~5% increase) adds ~$40m to profitability for the industry at current volumes. As the dominant player in the duopoly (55%-60% market share), PMP should capture most of the profitability should there be any price increases. To put this into context, PMP's entire market capitalisation is only ~$350m and the company is paying down debt such that it should be debt free in fiscal 2019.

Even if we ignore the possibility of some operating leverage benefits due to a more favourable pricing dynamic in the industry over the next few years, the investment case remains extremely compelling. In fiscal 2019, after realising all cost synergies for a full year, the company is expected to generate at least $90m of EBITDA per annum. The company has already made considerable progress with staff redundancies and plant closures and therefore we consider the risk of not realising the expected cost synergies as low. Furthermore, the oldest and least efficient equipment has already been retired leaving behind a fresh new fleet requiring limited capital expenditure for the foreseeable future. Additionally, with PMP not expecting to pay tax for 4 to 5 years, it is highly probable that it will generate free cashflow of $70m or more in fiscal 2019. This appears to be the case even if we bake in some unforeseen adversity to be conservative.

In conclusion, at the current share price we are owners of one of the players in a duopoly market, both in terms of catalogue heatset printing and catalogue distribution in Australia. It is trading on a price to free cash flow of only ~5x once all cost synergies have been realised (which is expected to be in in fiscal 2019).

Finally, I am often asked for a stock idea that pays good dividends with attached franking credits for a superannuation fund - well here you go! PMP is expected to recommence capital management in fiscal 2018 and the company already holds a meaningful $60m franking credit balance.

LOOKING FORWARD

The best value for money opportunities are often not found in fashionable places; the printing industry was certainly not an obvious hunting ground for most. When I first mentioned to Geoff a couple of years ago that I was keen to buy a stake in a printer, I do recall some colourful language and he wanting to book me into a psychiatrist! However, once the investment case was explained and debated, it was clear to both of us that there was an opportunity to make good money. We will continue to keep an open mind and let facts rather than the prevailing market view at the time drive our decision making.

Yours faithfully,

James Williamson
Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 30 June 2017

Company Name	% of Fund
Software Services	10.7%
Capital Goods	7.1%
Commercial Services	7.0%
Commercial Services	5.7%
Utilities	5.4%
Industrial Services	5.3%
Software & Services	5.2%
Capital Goods	4.1%
Energy	3.9%
Beverages	3.9%
Other Investments	23.4%
Total Equity Exposure	**81.8%**
Cash	18.2%
Total	**100%**

COMPANY NAMES ONLY AVAILABLE TO UNIT HOLDERS

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