WENTWORTH
WILLIAMSON

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.

SEPTEMBER 2017 QUARTERLY REPORT

Returns (%)	WWF Fund	S&P/ASX 300 Accumulation Index	Relative Performance
Cumulative			
Since inception	60.5%	27.8%	**32.6%**
Annualised			
Since inception	12.5%	6.3%	**6.2%**
Latest 4 years	12.5%	6.3%	**6.2%**
Latest 3 years	13.6%	7.1%	**6.4%**
Latest 2 years	13.4%	11.2%	**2.1%**
Latest 1 year	8.1%	9.0%	**-0.9%**

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.

The Fund performed well for the September quarter increasing 4.69% versus a 0.80% increase for the S&P/ASX 300 Accumulation Index.

As you are aware, our primary hunting grounds for new investments are: (a) companies that have disappointed or embarrassed investors with a number of profit warnings; and (b) under the radar businesses where value has, for one reason or another, not been recognised by a broader audience.

Our meaningful investment in Global Construction Services (GCS) is an example of an investment with enormous potential that was not immediately obvious to the casual market observer. Although a relatively new entrant to our Fund, the Company has already had a meaningful positive impact on our performance and is the focus of this Quarterly Report.

Global Construction Services (GCS)

Source: FactSet
* Circle denotes WWF entry

Mentioned in last month's investor communication, GCS is a small, under the radar engineering business with a strong balance sheet that is trading on a single digit free cashflow multiple. We initiated a position earlier in the year with the belief that the Company is perfectly positioned to take advantage of an emerging construction boom. At the start of September, we substantially increased our holding after identifying a catalyst that the market is yet to take full notice of but will provide enormous upside.

In the early years of GCS's history, it was a pure Western Australia based business working on large commercial construction projects, residential projects and maintenance in the resource sector; therefore, the Company was highly correlated to market conditions in that State. In the heady days of 2011/2012 it leveraged the balance sheet and bought an equipment hire business to take advantage of the good times, but like many others, it was not prepared for the cycle's inevitable ending. Even though revenue declined, GCS remained and remains to this day a very good cashflow generator, however a meaningful proportion of the cash was used to pay down the lease liability associated with the equipment hire business. At the end of last month, GCS finally announced the much-anticipated sale of this loss-making segment subject to customary completion conditions. Completion is expected before the end of this Calendar year and the price achieved will be greater than the written down asset value on the balance sheet. This will enable the Company to pay off the outstanding lease liability and free up cash for expansion and dividends.

Management learned many lessons from the challenging conditions in Western Australia and identified expansion into the East Coast of Australia as a good way to ensure that profits would be more resilient going forward. Through two very well-structured acquisitions, GCS has been able to retain high-quality core management of the acquired businesses with equity ownership, while also establishing a presence in Melbourne, Sydney and Brisbane. Close relationships with tier 1 contractors especially Brookfield Multiplex, will underpin strong growth into these markets and formed a core part of our original investment thesis. With seasoned and conservative management, a strong balance sheet and a trading price of 7x free cashflow, we are very excited about the opportunity that the Company presents. This was before the emergence of the recent catalyst that we think will propel the Company's share price and fortunes significantly.

The Catalyst: The tragedy of the London Grenfell Tower[1] in June of this year exposed one of the most astonishing scandals in the construction industry. The cladding used on the building was highly flammable and had been used in numerous construction projects over many years despite what appears to be full knowledge of the dangers that it posed by many industry insiders. Even more alarming was an ensuing Four Corners study[2] which revealed that this cheaper type of cladding was used by many developers in Australia until 2013. According to GCS management, around 20% of commercial buildings constructed in Australia since 1988 used this type of cladding and are potentially in breach of building compliance codes. Under pressure from insurers and banks, property owners are only now scurrying to examine their portfolios to assess the potential future liabilities and determine whether cladding will need replacing. **We are only at the tip of the iceberg.**

1 http://www.abc.net.au/news/2017-07-28/corporate-manslaughter-investigation-in-grenfell-tower-fire/8751374

2 http://www.abc.net.au/4corners/combustible/8859420

Combustible cladding: More than 5,000 buildings in Victoria may not be compliant, experts say

By Stephanie Anderson and Cheryl Hall

Updated 5 Sep 2017, 12:40pm

EXCLUSIVE JUNE 15 2017

London tower fire could happen here: Australian buildings cloaked in flammable cladding

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Thousands of ticking time-bombs: combustible building cladding is everywhere in Australia

COUNTLESS buildings across Australia are clad in the same type of flammable material that fuelled the deadly Grenfell Tower blaze. And we have no idea what to do about it.

Staff writer News Corp Australia Network SEPTEMBER 4, 2017 11:05PM

Queensland bodies corporate may have pay to rip out combustible cladding once deemed safe

Updated 5 Sep 2017, 9:23am

Sep 7 2017 at 11:45 PM Updated Sep 7 2017 at 11:45 PM

Non-compliant cladding? Your building may struggle to get insurance

Recent Headlines. Sources: ABC News, Sydney Morning Herald, News.com, Australian Financial Review

This issue will be of great benefit to GCS, which owns 51% of Gallery Facades, a business that installs cladding and other external facades. Furthermore, since Gallery Facades started in 2014, it has none of the legacy issues that will undoubtedly plague other operators. The pipeline of work is of such size that they have set up a new subsidiary to specifically deal with replacement work.

Taking into account the positive outlook of the existing business as well as the additional upside from the cladding issue, we feel that GCS is one of the best ideas in the fund. Despite the holding becoming our largest position by quite some margin due to a ~40% share price increase in September, we still remain very excited about the upside potential.

LOOKING FORWARD

Occasionally we will experience some bumps in the road, as was the case in August of this year. These minor set-backs take place from time to time, especially considering part of our strategy is to buy into stocks when they are deeply out of favour with the broader investment community. Going against current consensus or group think is part and parcel of our DNA and the formula to continue generating superior returns over the long term.

As always, thank you for your continued confidence in us.

Yours faithfully,

James Williamson
Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 30 September 2017

Company Name	% of Fund
Capital Goods	10.1%
Software & Services	7.7%
Commercial Services*	7.7%
Pharmaceuticals	7.3%
Commercial Services	6.4%
Utilities	6.0%
Capital Goods	5.6%
Industrial Services	5.1%
Diversified Financials	4.1%
Energy	4.0%
Other Investments	25.8%
Total Equity Exposure	**89.8%**
Cash	10.2%
Total	**100%**

COMPANY NAMES ONLY AVAILABLE TO UNIT HOLDERS

*Cash received on October 2nd following acceptance of a takeover offer.

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