WENTWORTH WILLIAMSON

Quarter ending 31 December 2015

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 generally or as a category
- Management changes
- Country-specific issues
- The market taking the view that the business model is broken (at least in the short term) or conversely over-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 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 evaluate. 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 6.

Year in Review to 31 December 2015

Wentworth Williamson Fund Performance			
12 Months to 31 December 2015	1 Year	2 Year p.a.	Inception
Fund	20.3%	15.2%	32.7%
ASX 300 Accumulation Index	3.4%	4.0%	10.1%
Cash Rate + 2.5%	4.7%	4.9%	11.5%
Relative Performance (ASX 300 AI)	16.9%	11.2%	22.6%

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

In 2015, the Fund increased 20.3% compared to a 3.4% increase for the S&P/ASX 300 Accumulation Index. Our track record since inception is a pleasing continuation of our experience in the last fund.

During the year there were some notable movements in our portfolio, as alluded to in previous reports. We decided to exit Amalgamated Holdings (now known as Event Hospitality & Entertainment) in September after a return greater than 60% in 2 years. At the time of our first investment at the inception of the Fund, the independent valuation of properties from the Group's hotel and other property interests equated to over 70% of the entire market capitalisation, meaning the implied valuation of the Cinema and Thredbo Alpine Resort businesses was grossly understated. As is often the case with our investment style, we sold into positive news after the company posted a record profit.

We also sold out of Coats Group in November, but under very different circumstances. At the time of an underwhelming quarterly trading update, management signalled their intention to delist from the Australian and New Zealand Stock Exchanges in June of 2016 while maintaining regular trading on the London Exchange. Shareholders wishing to continue holding will most likely have their shares transferred to the UK register – unfortunately, once it becomes a UK listed share, we are not allowed within our mandate to invest. Rather than waiting to see what happened to the price over the ensuing months, we decided to sell out completely. While we were and still are bullish on the business and investment opportunity, this is a stark reminder that unforeseen events can occur. Although we did not achieve the return we were hoping for, we did not lose any money.

Finally, during the year we bought back into Transfield Services (now known as Broadspectrum), one of our pre-existing ideas that was sold completely at a substantial profit on the $2.00 per share bid by Ferrovial S.A. (Ferrovial), late last year. As discussed in our last quarterly report, controversy and uncertainty relating to the Welfare and Garrison Support Services provided for the Department of Immigration and Border Protection gave us the opportunity to buy back in as low as $0.85. At those significantly depressed prices, we believed the company was a good investment again, trading on a low multiple of free cash flow with contracted revenue, falling debt, sector diversification (especially away from mining), and a strong management team. Obviously we weren't alone – last month, Ferrovial made another all-cash bid at $1.35 per share. Broadspectrum management echoed our sentiment by encouraging shareholders to reject the low-ball, opportunistic bid. Since then, the company has announced over $1b in new contracts and upgraded earnings guidance. We are happy to continue holding and believe the company is still significantly undervalued.

BACK TO THE QUARTER

For this quarter's stock specific commentary, the spotlight is on Wellcom Group Limited (WLL), which we have owned since 2014. We will not be surprised if you don't know much about the company - that's exactly how we like it!

WAYNE'S WORLD

The WLL story starts with industry doyen and patriarch Wayne Sidwell. One of the WLL non-executive directors remarked "Wayne Sidwell is Wayne Sidwell, nothing more need be said". When Geoff and I first met with Wayne, we both immediately recognised the business had a very astute, experienced and engaged leader. Subsequent due diligence, including feedback from competitors, confirmed Wayne's reputation as a fierce competitor but at the same time an honest and honourable man.

While WLL may only have a 10 year track record as a listed entity on the ASX and 15 years as an incorporated company, the history with the Sidwell family in the industry runs for over 8 decades. Wayne's father Bill entered the industry in 1932 as an apprentice and eventually built up a family business. In 1968 Wayne joined the family business Show Ads / Omega as an apprentice. Fast forward to 1993, Show Ads/ Omega is floated on the ASX and becomes Shomega Limited. Shomega Limited was subsequently acquired by PMP Limited in 1996 where Wayne took over the role as CEO of the pre-press division. In 1999, Wayne resigned from PMP and started Wellcom a year later with 14 hand-selected employees. Incidentally out of the original staff, seven are still with the company in senior roles within the business. In 2005 it was obvious to Wayne that the industry was changing and the business required substantial investment in technology and for future international growth. Hence, the business was floated to raise capital in the same year.

Before articulating the unique Wellcom business model, it is worthwhile adding a little background on the industry to provide context. Years ago, advertising agencies were a one stop shop for clients; they would come up with the ideas, produce and then place them (known as media buying). When media buying was taken out of agencies, they lost control over where and how their idea would be viewed by the consumer. The next big change is taking place right now and relates to the separation of production of the idea from the advertising agency, referred to as decoupling. Enter the few global businesses like WLL who at their core are more akin to technology companies with their sophisticated software programmes, which enable them to offer the full spectrum of services relating to creating, managing and distributing content at a lower cost with faster turnaround times than the traditional incumbents. WLL is at the **forefront of disrupting the industry status quo.**

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Today WLL is a truly global company with around 500 staff and 750 clients, with offices and 50 odd Hub's (internal graphic studios) operating in Australia, New Zealand, USA, UK, Singapore, Kuala Lumpur and Hong Kong. The Hub model is unique to WLL and contributes around 70% of the Group's revenue. This service involves installation of WLL technology and the placement of staff in the client's offices, providing a range of sticky services "on-site". Importantly, they are also an essential marketing resource; new products and services can easily be marketed and deployed to the client managed facility.

As an investor, you feel like you have hit the jack pot when you find a small listed company that is largely misunderstood by the investor community with world leading products and services on the cusp of rapid international profit growth. In 2015, Australia and New Zealand contributed around 75% of Group earnings, with clients including the largest local banks and retailers. To give you an idea of the rapid international expansion, recent global business wins include BASF, UK Trade & Investment, Canon, Patek Philippe, Simon Malls and Tesco. WLL now has global expertise to manage any corporation's brand management, brand consistency and communications delivery across the globe, including adapting content for local markets.

WLL's partnership with BBH is worth individual attention. Bartle Bogle Hearty is a leading international advertising agency and have shared a partnership with WLL for many years. It began as a hub/studio in London and then extended into Singapore and New York. 2015 was a year of consolidation for the WLL London office (which was noticeable in the financial accounts) as considerable time, investment and resourcing was deployed in preparation for the on boarding of Tesco business. Tesco is the size of Woolworths and Coles combined. We believe the London office will be a significant contributor to the Group in future years and we expect continued rapid growth from the US and further expansion in Asia.

To conclude, we own a meaningful position in WLL, a small listed business that is a world leading global production company capable of offering around the clock services connecting industry leaders with customers. The Executive Chairman, Wayne Sidwell, has almost five decades of experience and remains as passionate about the industry as ever. We have a penchant for well-managed, risk adverse (especially when it comes to debt) listed companies generating good cash flow with a strong family business alignment and pedigree. Wayne controls ~ 50% of the company and, as recently as September 2015, increased his holding by acquiring more shares on market.

In 2015 the international profit contribution to the Group was still small (especially in absolute terms); there is enormous potential for this company to grow in a large global profit pool from a low base.

LOOKING FORWARD

It would be unreasonable to expect us to outperform all the time, and I suspect a product trying to achieve such an outcome will ultimately be delivered at higher risk. However, over the years we believe, with hard work and dedication to our craft, we will continue to make our own luck and generate returns superior to our benchmarks. This means a lot of time spent trawling through potential investments, doing the research and meeting with management in a quest to find gems amongst the stones.

Seven years ago when Geoff and I first went into business together, he educated me on the meaning of the Hebrew word Mazal, which loosely translated means luck. I have never forgotten the valuable lesson and I will leave you with Geoff's Mazal interpretation to kick off 2016!

"Loosely translated the Hebrew word Mazal (spelt MZL in Hebrew) means luck. But it's not luck at all! In fact, the "M" stands for "Makom", the Hebrew word for "place" and the "Z" stands for "Zman", the Hebrew word for "time". Being at the right place at the right time is the essence of luck, but then the "L", "Laasot", the Hebrew word for " take action", comes into play. Identifying the appropriate opportunity, doing the hard work and executing successfully upon it, that's making your luck! A commentator once exclaimed that Gary Player was lucky when he successfully sunk a long putt in the British Open and Gary Player is reported to have replied "the harder I practice, the luckier I get".

Yours faithfully,

James Williamson

Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 31 December 2015

Company Name	% of Fund
Commercial Services	9.2%
Industrial Services	9.0%
Materials	7.0%
Industrial Services	6.7%
Commercial Services	6.2%
Real Estate Investment Trusts	6.2%
Beverages	6.0%
Food and Staple Retailing	5.6%
Commercial Services	5.5%
Other investments	12.1%
Total Equity Exposure	**73.4%**
Net Cash	26.6%
Total	**100%**

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