**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 2016 QUARTERLY REPORT

| | WWF | ASX 300 Accumulation Index | Relative Performance |
|---|---|---|---|
| Cumulative | 48.5% | 17.3% | **31.2%** |
| 3 Years p.a. | 14.1% | 5.5% | **8.6%** |
| 2 Years p.a. | 16.4% | 6.2% | **10.2%** |
| 1 Year | 18.9% | 13.5% | **5.4%** |
| 6 Months | 9.7% | 9.4% | **0.2%** |
| 3 Months | 8.0% | 5.2% | **2.8%** |

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.

In the 12 months to 30 September 2016, the Fund increased by 18.9% compared to a 13.5% return for the S&P/ASX 300 Accumulation Index. More importantly, our longer term three year return of 14.1% per annum is pleasing considering the S&P/ASX 300 Accumulation Index delivered a modest 5.5% per annum increase over the same period.

We are intensely focused on downside risk mitigation, and only deploy our capital when we uncover outstanding investment opportunities; we don't fall in love with our existing investments either. When an investment delivers to its potential, we take profits. As a result, the Funds' cash balance can vary from one period to the next. Since inception, on average, approximately one third of the Fund has been in cash. We have seen some market volatility here and there in recent times but not enough for us to go bargain-basement hunting, which would result in significantly lower cash levels in the Fund.

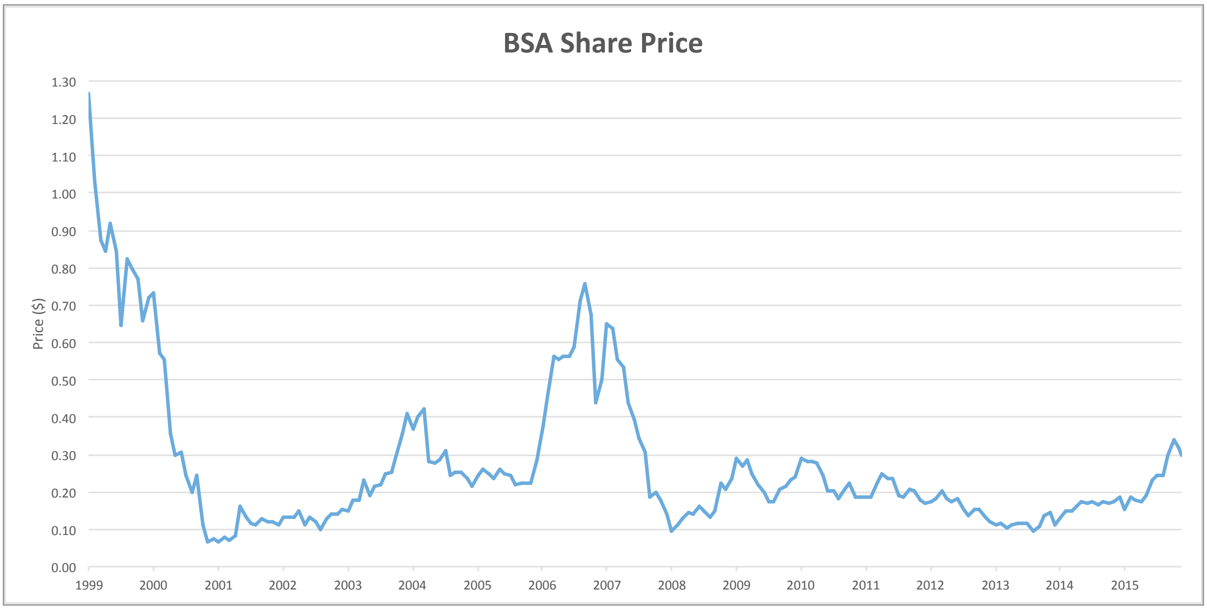


In the September quarter we exited our position in Nuplex Industries Limited (NPX) at a substantial profit, thanks to the all-cash acquisition by private equity backed Allnex Belgium SA/NV. The NPX investment case was the main topic of discussion in our March 2016 Quarterly Report. Additionally, in the same quarter, we seeded two new investments which we will elaborate on in future communications.

On the 10th of October 2016, UGL Limited received an unconditional takeover offer from CIMIC Group Limited at a price of $3.15 per share, representing a 44.2% premium to the UGL one month volume weighted average price. Subsequent to the takeover announcement, we sold our UGL holding profitably on market at a premium to the offer price.

The spotlight for this quarterly communication is on a relatively new entrant into the Fund, BSA Limited.

## BSA LIMITED (BSA)




**Source: FactSet**

BSA's divisions include telecommunication contracting, maintenance services and a contracting business installing heating, ventilation, air-conditioning (HVAC) and fire systems across commercial and industrial buildings. This seemingly boring description, along with the fact that the company is small and under the radar of most institutional and retail investors, may help to explain why there is a good chance you have never heard of the company before. This is normally a good signal for us as we have a deep seated dislike for popular growth stories.



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Another favourable sign for us is that BSA is a turnaround story. We often find value in the midst of turnaround stories after a period of embarrassing profit downgrades and/ or near death experiences. The improved outlook usually follows a capital raising, change of senior management, some changes to the board, and it often requires more effort than usual to untangle the restructuring costs and legacy contracts from a messy set of financial accounts in order to get a clear picture of the core base business. BSA most certainly fits this description.

Regarding the change of senior management, the appointment of Nicholas Yates as Managing Director in early 2014, we believe, was a very good choice. We would not have invested in the business if we did not think he was the right person for the job. Nicholas has a strong engineering background, including senior positions at Lend Lease where he eventually became CEO of APP Corporation, which was subsequently acquired by Transfield Services. Before moving to BSA, Nicholas had progressed to CEO of Transfield's ANZ Infrastructure Division. The BSA assembled senior management team also includes a Chief Financial Officer and Chief Operating Officer from the Transfield and Leighton's stables.

Earlier in this report it may have been unfair to label BSA a boring business. As it turns out, BSA is in the enviable position of benefiting from the roll out of the National Broadband Network (NBN), securing two large contracts in recent months including a highly prized maintenance contract. The other listed companies benefitting from the NBN include the behemoth Telstra and highly rated peer company Service Stream Limited. Not only could the revenue of BSA's telecommunications contracting division double over the medium term, but the margins are also likely to increase significantly. Currently the margins of BSA's telecommunications contracting division are less than half that of the similar division in Service Stream Limited. Additionally, we think BSA is well positioned to meaningfully grow its maintenance service business and offering over the next few years, both in terms of revenue growth and improved margins.

The higher risk HVAC and Fire contracting business is likely to become less material to the BSA business over time, although the division is on a sound footing with improved contract disciplines around bid management, contract formation, design management and delivery. Furthermore, the strengthened senior management team has made a point of reinforcing disciplined cultural values and behaviours. The forward order book is solid and the last major legacy contract is almost at an end, removing the final obstacle to the resumption of dividends and possibly also opening the door for opportunistic acquirers for the entire BSA business (as BSA is trading on a healthy discount to its listed peers).

In conclusion, BSA is a good platform for Nicholas Yates to execute his vision of doubling the size of the business over the next few years. The company has no debt and is trading on a low earnings multiple on operating margins where there is substantial scope for improvement.



## LOOKING FORWARD

Although Geoff and I have been responsible for a successful similar Fund in the past, it is still a noteworthy milestone to pass the three-year landmark with Wentworth Williamson delivering a pleasing performance track record. A special thank you from Geoff and I to you, our clients, for the trust you place in us and our team.

We believe our team, support structures and investment approach provides the secret sauce for us to continue to outperform our benchmarks over the long term. In the words of Disraeli, "Diligence is the mother of good fortune".

Yours faithfully,

James Williamson

Fund Manager

## APPENDIX

### The Fund's Portfolio (unaudited)

As at 30 September 2016

| Industry Name | % of Fund |
|---|---|
| Commercial Services | 7.8% |
| Commercial Services | 7.3% |
| Health Care | 6.1% |
| Industrial Services | 6.0% |
| Beverages | 5.7% |
| Commercial Services | 5.0% |
| General Industrial | 4.9% |
| Real Estate Investment Trusts | 4.6% |
| Industrial Services | 4.0% |
| Capital Goods | 3.9% |
| Other | 11.9% |
| **Total Equity Exposure** | **67.2%** |
| Net Cash | 32.8% |
| **Total** | **100%** |



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